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# FDI Inflows in BRICS Nations and Impact of FDI in development of BRICS

A dissertation submitted in partial fulfilment of the requirements of the School of Business and Law, University of East London for the degree of MSc International Business Management

May 2016

13,570 Words

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FDI Inflows in BRICS Nations and Impact of FDI in development of BRICS

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## ABSTRACT

Foreign Direct Investment is one of most essential economic measures that act as an active catalyst to growth and development. Every country puts necessary arrangement in place to attract foreign capitals. FDI does not only bring funds to the host country, it also strengthens bilateral relationship between investor and hosting nations. BRICS (Brazil, Russia, India, China & South Africa) had been coined by Goldman Sachs in early 2000s as the major emerging market in the world. BRICS nations have been developing at a very high speed since last few decades. The countries have significant similarities in terms of geographic size, market size and huge population. The research report aimed to evaluate FDI inflows in each of these nations and figure out the impact regarding growth and development. It was found out that FDI inflows in BRICS nations are too small relating to the market size of these countries and impact negligibly in terms of development. BRICS nations are too diversified and growth parameters are not focused in a few number of issues.

Prior to collecting and analysing data, relevant literature had been searched and carefully studied. Some significantly important theories of FDI have been discussed and later compared to the strategies followed by BRICS nations. While researching determinants of FDI, wider range of similarities were noticed among BRICS nations in terms of market size, political stability and bureaucratic complexities.

FDI sectors are different in each nation and they happen to attract more FDI in the sectors the particular country has special arrangement and policy in. And once the FDI sector is specified, it is expected attract FDI from the country which are specialised in that sector. For example, South Africa attract substantial FDI in

finance and banking sector and as the UK is the world expert in banking, it naturally attracts the UK to be its major investor.

From historic data and recent trend, it clearly indicates that BRICS nations are in a better position to attract FDI in a very large scale in coming years. Low cost labour, growing economy, diversified social-economic position and globalised trade incentives are likely to attract foreign investors in these regions.

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## CHAPTER-1: INTRODUCTION

Brazil, Russia, India, China and South Africa are the five big growing economies which had been classified as the emerging market economy and later on named as BRICS. Foreign Direct Investment (FDI) gained importance in the last decade in BRICS member nations as the five economies of the BRICS contain almost the same characteristics in terms of huge population, big potential market, rapid economic growth and all of them have phenomenal geographic size and natural endowments. According to Goldman Sachs (2016), India and China are the two big global economies which can become the largest economies by the mid of this century. Together, BRICS counts for 40% of the population of the world. And 25% of the world's land surface. (Goldman Sachs, 2016)

The role of the Foreign Direct Investment in BRICS grew in the last decade and it reached over 477 billion USD in the year 2014 in total. In five years from 2000-2005, BRICS contributed to the 28% of the world's growth and they contributed to 15% of the world's trade (World Bank, 2015). The importance of BRICS is growing across the world and it is reflected by various indicators like increasing shares in the gross domestic product (GDP), per capita GDP, contribution to the world trade and inflows and outflows of Foreign Direct Investment (FDI) (Jadhav, P., 2012)

In the Asian Development Outlook which is run by Asian Development Bank (ADB), it is mentioned that Foreign Direct Investment has increased by a great rate in the recent times and it is because of updated technology, global integrated production, better established markets and establishment of many development institutes to monitor the activities. The countries in the BRIC which are Brazil, Russia, India and China will form one of the biggest global economic groups by

the middle of this century. These countries are attracting more and more FDI inflow and developing at a rapid rate (Adhikary, B., 2011).

The determinants of Foreign Direct Investment in BRICS countries are per capita Gross Domestic Product, Human Capital, Population, Exchange rate between the countries and openness in the trade which means how liberalised the nation is for foreign trade. So, it is very important to maintain trade openness in the country to favour trade with the foreign countries. All the BRICS countries are in a developing state and it is crucial for them to encourage more and more Foreign Direct Investment for their ongoing development (Demirhan E., Masca M., 2004).

There is a great increase in the Foreign Direct Investment sector in recent times and the increase in the MNC investments show that the determinants of FDI is more collective than ever before. For example, according to Anderson & Gatignon (1988), political instability, corruption and other external uncertainty are interrelated and can be generalised as external risk. Market size and openness to trade are other two significant determinants that play serious implications on FDI. Any developed country when investing in a developing country, its due diligence includes all of these factors including stability, whether there is economic and political stability in the host country or not (Mehic, E. *et al.*, 2009).

There are many factors that determine FDI inflows in a host country. FDI determinants and other literature models help us to analyse these factors that facilitate or inhibit FDIs. Transaction cost, OLI Paradigm, Entry Mode and Product Cycle theories are some of the most relevant literature models that explain FDI fidelity in the emerging markets like BRICS. Other important factors like low labour costs and flexibility of labour market also play a crucial role in attracting FDI (Schneider, K. & Matei, I., 2010).

FDI effects growth through two primary ways. First is the generation of an inflow of physical capital in the hosting country. As the size of country's physical capital increases it also contributes to the increase in production capacity.

Second way through which the FDI effects growth is technology spill overs. Technology spill over can occur over different ways including imitation, reverse engineering and supplier linkages. It is often said that the reason behind the enhanced rate of economic growth of FDI is primarily the positive externalities from technology spill overs. FDI also helps in emergence of new theories and technologies. It has been observed that new varieties and production methods have been developed with the help of reverse engineering which helps in reducing costs and increase productivity. Technology spill overs help in positive externalities which provides impactful returns in capital (Zenegnaw, 2010).

Apart from benefits like capital and technology, FDI provides higher wages, higher standard of living, access to markets, more competition and cheaper goods and services for consumers.

It is seen that Foreign Direct Investment and its impact depends all upon the host country and its conditions. The economic growth of the country can be gained or increased by allowing Foreign Direct Investment but the conditions of the host country play a major role. Foreign Direct Investment is more successful in the countries with faster growth.

## Research Question

To investigate FDI inflows in BRICS (Brazil, Russia, India, China & South Africa) nations and evaluate whether FDI facilitates development and growth in large emerging markets like BRICS.

Apart from the research question, the study aims to figure out the gross determinants of FDI in BRICS nations and strategies and/or models appropriate and/or followed by BRICS as an emerging market in order to attract foreign capital investments.

## Types of FDI and Its Roles

FDI is often misunderstood with PFIC or Portfolio Foreign Investment Corporation which includes bonds, stocks and other portfolio investments. According to FT, “Internationally agreed 10% threshold of voting share is used as a standard definition of control.” FDI is shown as the sum of equity capital, long term or short term capital in balance payment statement and has significant role to balance trade deficit. FDI includes merger & acquisition, building new infrastructure, reinvesting profit earned from FDI. (Financial Times, 2016)

There are three types of FDI available in international market -

- Horizontal FDI
- Platform FDI &
- Vertical FDI.

In horizontal FDI, foreign firm duplicates its operation system of its home country. The firm holds its similar day to day operation system, management pattern, signs and logo and trading name.

In Platform FDI, foreign firm uses the host country as a medium to export to third country as a part of its international trades.

In vertical FDI, FDI moves up or down in different value chain. (Financial Times, 2016)

In many cases foreign multinational companies conduct horizontal foreign direct investment activities as this is the way to get exposed to bigger market shares and dominance. For almost all BRICS nations, horizontal FDI is prevalent. MNEs like GSK, Unilever, Coca-Cola, P&G, Royal Dutch Shell are some of the examples that follow horizontal FDI and conducts trades just the way they do in their home nation and their principal objective is to gain international market share.

However, vertical FDI is often conducted in order to seek supply or distribution advantage. For example, a car company in Germany will need supply of steel to manufacture car. Since steel market heavily fluctuates and it impacts the production cost, they may intend to invest in China or India where steel is manufactured and control the supply line of steel. For the similar reason, China and India receives vertical FDI because of their cheap labour cost and location advantages (Joshua A., et al., 2004).

Inward FDI increases development speed, increases firm level competition, improves employment rate, generates taxes, transfers technologies, investments and skills. According to Thomas Havranek & Zuzana Irskova (2011), FDI robustly increases productivity growth in developing nations that can create a positive impact on country's GDP.

Outward FDI reduces trade deficit, increases international exposure of national firms, increases country's negotiation power. Outward FDI enables a country to export its technologies, skills and intellectual properties. EPZ, low corporation tax, special economic zones, bonded warehousing, preferential tariffs, land subsidies are some of the significant incentives that a country can get benefited from outward FDI.



In order to facilitate development and economic growth of BRICS nations, it is important that there is an adequate balance of inward and outward FDI, depending on different economic conditions and determinants of FDI. In recent years, BRICS nations, especially China, have undertaken prudent economic strategies in order to attract foreign FDI and to facilitate outward FDI in foreign nations. There is a substantial outward-oriented FDI noticed in Africa from all of the BRICS members. While China is the biggest foreign investor in Africa who specialises in constructions, Brazil, India, South Africa and Russia has also shown interest to invest in Africa and there are noticeable recent activities involved (The Guardian, 2013).

In terms of inward FDI, China is again the biggest inward FDI collector among all BRICS nations. China has attracted many foreign national and multinational firms and conglomerates to invest in China because of its skilled low cost labour. From pharmaceuticals to manufacturing, China has attracted many many foreign industries to set up their firms for last three decades.

Most recently India has announced its Make in India campaign which has its sole objective to attract foreign investment in India. The Make in India campaign had received world wide coverage and many foreign nations including Germany, Japan and other OECD nations have signed different sorts of investment projects in India under this campaign. However, critics have expressed uncertainty issues regarding India's capability of skilled labour, political and economical infrastructure that unlike China.

Although Inward and Outward FDI both serve significant development benefits, the research aims to figure out impacts of inward FDI in BRICS nations.

## BRICS (Brazil, Russia, India, China & South Africa)

BRICS is the acronym of emerging economies of the world which include Brazil, Russia, India, China and South Africa. The name was first coined in 2001 by Goldman Sachs and first BRICS summit was held in 2009 in Yekaterinburg, Russia. BRICS involve NDA (New Development Bank) and BRICS CRA (Contingent Reserve Agreement) which has a purpose to serve BRICS nations in term of lending in infrastructure and protection against global liquidity crisis. The reserve agreement holds an initial fund of 100 Billion Dollars. (BRICS 5, 2016)

NATION	1981-90	1991-00	2001-10	2011	2012	2011-20
CHINA	9.3	10.5	10.5	9.3	7.8	7.5
INDIA	5.6	5.6	7.5	6.3	3.9	7.5
BRAZIL	1.6	2.6	3.6	2.7	0.9	5.2
RUSSIA	0	-2.1	4.9	4.3	3.6	5.4
BRIC	5.3	5.5	8.1	7.7	5.8	6.6

Figure - 1.1: GDP Growth in BRICS Nations, 1981-2020 (World Bank, 2015)

## Globalisation and FDI

Globalisation is a combination of four major trends -

- Expansion of international trends
- Financial flows
- Global communication
- Immigration

FDI is the most important element of financial flows which works as an active catalyst for globalisation. In the other word, globalisation facilitates FDI flow among the nations. Throughout the 1970s and the most recent wave in 1980s-90s have increased global FDI flow dramatically.

However, all four major trends have different faces depending on countries, geographical and economical stand point. While FDI plays a vital role in developing nations, immigration is a notable cause in developed nations. There has been a major growth of globalisation in 1990s and onwards and so it impacted the flow of FDI in BRICS an an emerging market and rest of the world. (Panalver., M, 2002)

YEAR	EAST ASIA	EASTERN EUROPE	LATIN AMERICA	MENA REGION	SOUTH ASIA	SUB SAHARAN	TOTAL
1990	19.4	7.7	12.6	0.4	2.2	1.3	43.5
2000	65.7	45.4	97.3	1.1	9.3	7.1	225.8

Figure - 1.2: Net Capital Inflows (Billion USD) by Region, 1990 & 2000  
(Panalver., M, 2002)

YEAR	EAST ASIA	EASTERN EUROPE	LATIN AMERICA	MENA REGION	SOUTH ASIA	SUB SAHARAN	TOTAL
1990	11.1	1.0	8.2	2.5	0.5	0.8	24.1
2000	52.1	28.5	75.1	1.2	3.1	6.7	166.7

Figure - 1.3: Foreign Direct Investment (Billion USD) by Region, 1990 & 2000  
(Panalver., M, 2002)

From the chart above, it is obvious that FDI had been increased tremendously in following the 90s wave of globalisation and capital and FDI flow in East Asian and South Asian region rose dramatically. Globalisation facilitates growth and it also facilitates FDI inflows. In this regard, it can be claimed that FDI is closely related to growth and modern development.

## CHAPTER-2: LITERATURE REVIEW

The research has a primary theme and a secondary theme that are closely related to each other. First of all, the strategies and models followed by different BRICS nations are searched as well as the different determinants within the member organisation in the domain of international business. The literature review commenced with a search for articles, journals, books, publications, conference reports, corporate proceedings, surveys regarding the research question. Most facts and details are collected from publications by IMF, WTO, World Bank and Goldman Sachs. Foreign Direct Investment (FDI) is growing in the present market faster than ever before. The multinational firms increased in numbers and so the capital inflows and outflows increased significantly. Capital received from foreign countries provide variety of benefits to the countries that receive the capital. Direct and indirect channels accelerate economic growth rate. Direct channels include managerial know-how, transfer of the technology, allocation of risks, domestic savings, etc. (Ho, C., & Rashid, H., 2011).

Gross Domestic product (GDP) and the GDP per capita are two of the major determinants for FDI flow among the countries. The impact of FDI is positive and beneficial in the long term but the effect is different from country to country. And the trade policies affect the role of the Foreign Direct Investment in the economic growth of the country.

Foreign Direct Investment provides many benefits to the countries in terms of high level of growth, more exports, higher wages and availability of higher technology which increases the productivity of the local firms. Foreign Direct Investment is an on-going process in which economies of the world come together and brings a great change by the operations which are now more attractive and with higher productivity (Jadhav, P. 2012).

## Impact of FDI in Human Development

Although Foreign Direct Investment is supposed to be beneficial to human development, however not all FDI is equally beneficial to increase HDI index. It often depends on the type of FDI and the sectors. FDI inflows with high liability and low equity does not facilitate human development. Many FDI and its liabilities are government guaranteed which apparently means that in terms of default, hosting government will be liable to pay the debt of the FDI. This type of FDI also influences on central bank's discount rates as slight increase in interest rate can increase the ongoing liabilities of foreign investment and government may default (Lall, S. & Narula, R. 2013).

Inward FDI is supposed to increase competitiveness in the domestic environment. However, if there is no domestic competition policy set up, this can create negative effect by overcrowding domestic firms. Merging with foreign large corporation can also offset the efforts of R&D.

International agreements on trades and investments regulate how countries are going to benefit from FDI and other trade initiatives. Multicultural investment agreements facilitate security to the foreign investor but it imposes many terms and regulations that affect development of the host nation. WTO, incorporated in 1995 in Geneva, Switzerland, acts as the principle regulatory organisation regarding trades and investments. WTO was founded on the basis of Uruguay negotiation in 1995 and it replaces GATT or General Agreements on Tariffs and Trades (WTO, 2014).

TRIM or Trade Related Investment Measure is one of the four legal requirement of WTO trade treaty that has been agreed by all of its member states in 1994. In Uruguay 1994, TRIM had been negotiated recognising that certain investment measure can have trade restrictive and distorting effects on host developing nations. It states that no member shall apply a measure that is prohibited by the

provision of GATT, Article III (national treaty) or Article XI (quantitative restriction) (WTO, 2016). From so on, TRIM has been used to counter anti-competitive and trade restrictive business practices, the provision that works as an inhabitant to human development. Although OECD nations consider TRIM agreement as a safeguard for foreign investors, many developing nations including BRICS members accuse TRIM as an impediment to growth and development. The negotiation between these two groups have been going on from Doha Convention 2001 till now.

According to WTO, FDI has a positive effect on human development through technology transfer and domestic productivity spill over. Like many developing countries, BRICS face WTO agreements like TRIM & TRIP a deterrent to growth and human development and are more inclined to bilateral trade agreements having a strategic approach in place. (WTO, 2006)

According to Sanjay Lall,

“Resources transferred from foreign parent companies to their locally based affiliates are positively related to the affiliates competitive advantage in the host country.”

And

“The transferred resources are positively related to resources and assistance to local firm from the affiliate” (Lall, S. & Narula, R. 2013).

However, according to Sanjay Lall and Rajnesh Narula (2013), the amount of benefit local firms receive depends highly on the quality linkage developed between transnational company and the local firms.

Within BRICS, China and India are improving their quality linkage between the national and transnational industries while Russia finds it difficult as many international sanctions have been exercised on the country.

Collaboration and linkage occurs when affiliate and local firms engage in technology sharing, development growth, management contracts and alliances.

### FDI Feasibility of BRICS

In every country the role of Foreign Direct Investment is different. The effect depends on economic, social and financial conditions of the receiving economy. The countries which are developed will have positive effect of Foreign Direct Investment because they have adequate sources of human capital, machinery, money, etc. by which they can make optimum utilisation of the investment.

All the BRICS countries are in the developing state and it very important for them to encourage more and more Foreign Direct Investment for their development. In recent years they have attracted huge amount of Foreign Direct Investment. China is the country which is moving and growing fastest among all the countries of BRICS in the years 1994 to 2015 and FDI inflows in China reached more than 300 billion USD surpassing the USA in 2015. India increased smoothly from the year 2005 and Russia also moved a lot ahead in Foreign Direct Investment from the year 2005. Brazil has not seen much growth but it has increased slowly (World Bank, 2016).

According to the United National Conference on Trade and Development, India, China and Russia are the countries which have high potential of FDI but they do not perform well but overall, the Foreign Direct Investment in BRIC countries is increasing but the industrial patterns of all the BRIC countries are different from

each other and the determinants of the Foreign Direct Investment in the BRIC countries of different industrial patterns are discussed here (UNCTAD, 2013).

The international market of Brazil is much better than the markets of India and China. The economy of Brazil received significant pace after World War II. India is rich in external and internal factors and is better than China, it is also regarded as the 8<sup>th</sup> major industrial nation of the world in 1928 by the League of Nations whereas China faced the biggest crisis but it opened the doors for the Foreign Direct Investment and expanded employment and innovation to achieve growth for the long run (Al-Nuemat, A., 2009).

Brazil has an advantage of rich natural resources which is much more than China and the population of Brazil is very less as compared to China. Brazil is a good exporter of Agriculture products and also of beef. Russia on the other hand is enriched in natural resources. Russia's natural resources include silver, gold, tin, zinc, uranium, oil and gas. When compared to China, India is better in some areas, first of all, the software industry of India is much better than China, in fact it is one of the best in the whole world. India has a big amount of IT professionals, more employment and more development whereas the Information technology industry of China developed after India. But the infrastructure of China is far more modernised than India. Infrastructure of India is still poor and its one of the major hurdles in terms of development. Also, China has a cheap labour source which attracts other countries to set up their production processes in China and invest there (Hailu, Z., 2010).

One of the determinants for Foreign Direct Investment is Business Environment. In the year 2014, out of 175 economies, Russia stood up at 33<sup>rd</sup> rank, in ease to start up a business. The rules and regulations are not very rigid but in Brazil, it takes very long to start up any business and in India, to start up any new business, the costs incurred are very high. Brazil has one of the highest interest rate anywhere in the world. Russia takes a very long time to issue licenses and India



again involves too many bureaucratic complications. China gives credit to the new start-ups easily where as it is very difficult to get credit in India and Russia to start up a new business or a production process (Husni, K., & Siam, W., 2010).

After seeing the growth rate of FDI investments in the BRICS in the past decade one can conclude that BRICS have emerged as the major destination for FDI investments. There are several factors which makes the BRICS more attractive market for investments then others. The most important reason being the large consumer market for their products. Taking example of India, its more than a billion populations which consists the maximum percentage of middle class prove a huge potential market for foreign investors. Strong economic conditions and sustainable growth rate becomes another reason for them to become some attractive destinations for FDI. Other important factors like low labour costs and flexibility of labour marked also plays a crucial role in attracting FDI because they result in low cost of production (Schneider, K., & Matei, I. 2010).

Since much of the FDI is export oriented therefore availability of quality infrastructure like electricity, transportation, water and telecommunication is critical to FDI inflows. It may also require to import complementary, raw and capital goods. In either case, due to increased volume of trades, trade openness in these economies needs to be positive. FDI inflow also plays crucial role for currency value and exchange rates. Exchange rate is also important for purchasing power and level of inflation, therefore needed to have a positive relationship between currency value and FDI inflows.

China has planned some strategies to be the leader among the BRICS countries in attracting the Foreign Direct Investment. China and India both adopted different strategies to attract the Foreign Direct Investment but India is not at par with the China in terms of Economic performance. China has a good connectivity with the diversified markets of the world and it has different modes of

transportation which aids in completing the process of the foreign investment. For example: China created a Shenzhen Special Economic Zone, which is in a village called Shenzhen, a small village with a population of 70 thousand people and with an area of 325 Sq. miles but because of the efforts placed to renew the place, it is now one of the most modern areas in China. It itself accounts for \$40 billion Gross Domestic product (GDP) and around 1,20,000 transnational companies are working in this place. It is also one of the largest ports in the world and it has its own stock exchange. This is all happened because of the strategy initiatives of China and its government. They allowed many joint ventures so that the trade could grow between the nations. China provided incentives and good wages to the workers and promoted exports on a large scale (Al-Nuemat, A., 2009).

India on the other hand requires some more reforms and strategies to attract more Foreign Direct Investment. It has to be more focussed on the goals and objectives and the government should provide full support so that the country can develop at a fast pace.

COUNTRY	GDP PER CAPITA (\$)		GDP SHARE IN WORLD (%)		TOTAL INVESTMENT(% OF GDP)	
YEAR	1992	2012	1992	2012	1992	2012
BRAZIL	2529	11358	2.9	2.8	17.2	17.6
RUSSIA	575	14302	4.1	2.9	37.6	24.9
INDIA	333	1500	3	5.6	23.7	35.6
CHINA	416	6071	4.2	14.7	37.4	48.8
SOUTH AFRICA	3389	7525	0.7	0.6	12.2	19.4

Figure - 2.1: Major Development Phase of BRICS States - 1992 - 2012 (IMF, 2016)

It can be seen from the above chart that the economies of the world are developing at a very fast rate and from the year 1992 to 2012, there has been a lot of change in the Gross Domestic Product of the countries.

## Theoretical Study

In search of literature, number of critical theories have been found out regarding FDI and these can explain a countries socio-economic situation to FDI. Unlike G7 or OECD nations, BRICS member states are highly diversified and distinguished from each other. Just like the determinants of FDI, theoretical analysis for different states is different.

## Transaction Cost Theory

The cost incurred in making an economic exchange is known as transaction cost theory. Transaction cost theory is divided in to three broad categories -

- Search and information cost
- Bargaining cost
- Policy and enforcement cost

The idea of transaction cost theory was first introduced by the institutional economist John R. Commons.

According to Coase (1997), the boundaries of a firm are determined by the relative costs of carrying out a transaction within a firm's hierarchy or on the open market. Although work of Coase didn't specifically deal with FDI, it was Hymer (1960) who first coined the theory as a catalyst of international business which exponentially rose during the following decade.

Williamson (1999) later on during his PhD research, broadened the sector by adding "Opportunism" and described it as one of the major driving force for FDI

transactions. Williamson argued that international operations are based on the potential for opportunism between dealing parties.

Furthermore, the transaction cost theory has been tuned up by Buckley & Casson (2008), Anderson & Gatignon (2001) and Hennart (2003).

“Asset Specificity” is another extension brought by Anderson & Gatignon (2001) and it was later defined a mostly backed in the similar way by Chiles & McMackin (2002) and most recently by Zhao, Luo and Suh (2004). Asset specificity stands for the viability and usability of the physical and intellectual assets of the given parties. When asset specificity is high, it becomes costlier and cumbersome for the firms to renegotiate contracts and it cripples the potential for “Opportunism”. Although opportunism plays a vital role in terms of attracting FDI but it has been highly criticised by Ghosal & Mohan (2006) that firms’ internationalisation decision taken by focusing on opportunism can lead to an inappropriate and hazardous investment. In this extent, FDI determinant analysis plays the major role to determine the international business & investment strategy (Rogman, T. 2011).

## OLI Paradigm

OLI Paradigm, OLI Framework also known as Eclectic Paradigm is a development of internalisation theory which was published by John H. Dunning in 1979. According to OLI Paradigm, transactions are made within an institution if the transaction cost, on the free market are higher hen the internal cost. This process is known as internalisation.

Dunning added three more factors to the theory -

- Ownership advantage
- Location advantage
- Internalisation advantage (Dunning, 1995).

Dunning argues that if there are Ownership, Location and Internalisation advantages available, firms will engage in international productions rather than domestic investment. (Dunning, 2003)

According to Dunning (2003), ownership advantage refers to unique assets or knowledge that firms may possess from which they can generate rents. In other words, ownership advantage is firms own competitive advantage. This is the major driving force for firms to consider FDI. Firms that do not hold substantial ownership advantage, are less likely to seek foreign investment than those who possess them. However, there are two more factors - Location and Internalisation that determines where and how the internalisation would take place.

OLI Paradigm merges several isolated internalisation economic theories in one approach. There are three basic forms of international activities. Such as -

- Licensing
- Exports
- FDI

Source: Dunning (1981)		Cost of Advantages		
		Ownership	Internalisation	Location
Form of Entry	Licensing	Yes	No	No
	Export	Yes	Yes	No
	FDI	Yes	Yes	Yes

Figure - 2.2: Forms of Internalisation (Dunning, 1995)

Ownership increases the demand for licensing while with locations and internalisation advantages, exports and FDI goes up. According to OLI Paradigm, the greater the O & L advantages possessed by a firm, the more FDI will be undertaken.

Trade and FDI Patterns		Location Advantages	
		Strong	Weak
Ownership Advantages	Strong	Export	Outward FDI
	Weak	Inward FDI	Imports

Figure - 2.3: O & L Advantage and FDI Patterns (Dunning, 1995)

However, if the firm possesses substantial ownership advantages but location advantages favours the country of domicile, then domestic investment will be preferred to FDI and foreign markets will be supplied by exports.

OLI Paradigm contrasts national resources endowment with firms' resources. If the domicile country does not possess substantial location advantage, strong local firms are more likely to emphasise exporting.

It has been criticised that OLI Paradigm is too superficial providing too many explanatory variables that its predictive value is nearly zero. However, Dunning (2003) states that OLI paradigm is a methodology and it generates sets of variables that contains ingredients necessary to explain particular types of foreign value added activities.

The latest criticism arises whether OLI Paradigm functions about the behaviour of the emerging economies' MNEs compared to developed nations. (Hennart, 2009). As e-commerce rapidly develops, many companies now starts to become international very early or some are born international. (Oviatt & McDougall, 1996)

## Entry Mode Theory

According to Canabal & White (2008), the study of entry modes of individual firms is closely related to FDI. FDI inflow occurs when firms take entry mode decision based on equity investments. An international arrangement chosen by a firm to operate in a foreign market can be defined as the mode of entry (Kumar & Subramaniam, 2007). Mode of entry is related to the level of control retained by the foreign firms. The core level of control retained by the foreign firms lead to more exposures to profit or loss.

Anderson & Gatignon (2001) defined control as the ability to influence methodology, system and decision making. Although control is often sought by foreign firms, it comes with higher responsibilities including management, finance and decision makings. Higher control can also block a foreign firm in a certain location while making switching cost high.

Anderson and Gatignon (2005) classifies entry mode arrangement as follows -

- Low control mode
- Medium control mode &
- High control mode.

While low and medium control include licensing, exports and franchising, it is high control entry mode that include wholly owned subsidiaries that are often regarded as foreign direct investments.

Apart from those, OLI Paradigm has also been studies in order to defend entry mode. Brouther & Nakos (2002) concluded that ownership, location and internalisation advantages clearly and firmly facilitates high control entry mode. However, firms will consider lower level of control if any of these parameter weakens.

By studying OLI paradigm regarding the mode of choices of US equipment leasing firms, it was realised that large and multinational firms prefer high equity entry mode. It was also found out that firms those have ability to develop differentiated products for example - technology services, they prefer low equity entry modes (Agarwal & Ramaswami, 2002).

Zhao, Luo & Suh (2004) followed the entry mode classification framework of Anderson & Gatignon and concluded that there are six different factors that determine the level of control companies obtain -

- Country risk
- International experiences
- Asset specificity
- Advertising intensity
- R&D Intensity
- Cultural distance.

Since the choice of entry mode directly impacts the FDI received by the host nations, it is relevant to study the topic of entry mode and the factors that determine the level of control.



## Product Cycle Theory

Raymond Vernon (1966) first developed the product life cycle theory to explain the pattern of international trade. Vernon explains that the production place gradually shifts in accordance with the maturity of the product. Later Charles Hill (2007) explains there are five stages of product life cycle -

- Introduction
- Growth
- Maturity
- Saturation &
- Decline

However, the model was first developed to explain why US firms are engaging in foreign direct investment in Western Europe. In that time of development, the model had four stages -

- USS has export monopoly of a new product
- Overseas production starts
- Product becomes competitive
- US becomes importer of the product (Hill Charles, 2007).

Product life cycle theory can be used to analyse the relationship of product life cycle and FDI flows.

From figure 2.4 & 2.5 it can be seen that innovative nations start the production of new products and the production level goes down as the product gets matured. Once the product reaches its maturity in the market, the innovator becomes the importer of the product and on the other hand, the imitator country becomes the exporter.

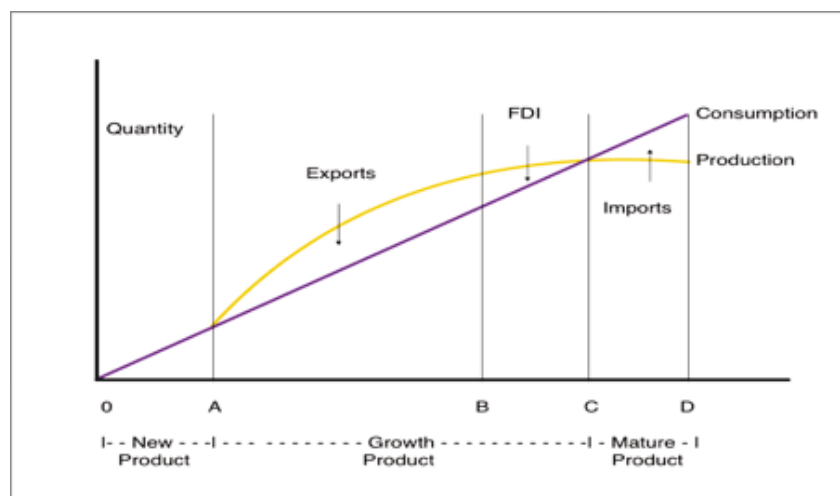


Figure - 2.4: Product Lifecycle - Innovative Country

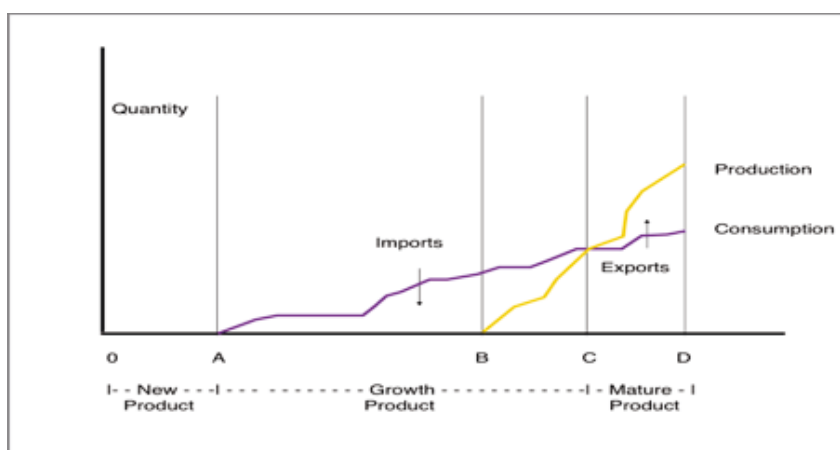


Figure - 2.5: Product Lifecycle - Imitating Country

## FDI Determinants

Much academic works have been undertaken to understand FDI by researching and studying the determinants of FDI along with the theories. Dunning (2003) distinguishes four types of FDI -

Resource seeking

- Market seeking
- Efficiency seeking
- Strategic asset seeking

In fact, Location factor varies in each type of FDI. Especially for emerging markets like BRICS, location alone plays the vital role to attract FDI. For emerging markets, FDI is generally considered desirable regardless any four of the above. After the debt crisis of 1997, FDI has been one of the major source of capital than any other portfolio investment in Asian countries (Lipsey, 2001). As far as transfer of technology and skills are concerned, FDI is also considered beneficial for the emerging market for its spill over effect (Meyer & Sinani, 2009). These are the reasons emerging market like BRICS have been taking substantial initiative to encourage FDI.

The determinants of FDI flow is an important matter of concern for the government policy makers and the academics for obvious reasons. A number of studies have taken place on the individual elements of FDI and also on an overall model of the determinants of FDI. Morgan (2007) and Rugman (2005) had their research on FDI determinants based on internalisation theory. Markusen (2001) merged horizontal and vertical FDI model and developed Knowledge Capital model to explain determinants of FDI. Although Morgan and Rugman (2007 & 2005) singled out internalisation from OLI Paradigms, it was Pilinkiene (2008) who described determinants of FDI based on the whole OLI Paradigm model. (Barauskaite, L., 2012)

However, because of significance social, demographic, political and environmental differences among BRICS nations, it was considered appropriate to study the individual elements of FDI rather than a general model that may not be compatible with each of them.

## Market Size

Market size is the least controversial factor associated with FDI inflows. The easiest parameter to realise market size of any given country is its GDP or Gross Domestic Product. Large economies happen to attract more FDI than the small ones. BRICS nations are worlds some of biggest GDP holders. However, GDP per capita is also an indicator to measure market size. GDP growth is undoubtedly the most important parameter to determine the best market. Countries those have higher GDP growth rate like China, India, Nigeria, Bangladesh have been successfully attracting FDI in spite of significant socio-economic distinguishes. Market size as a solid determinant of FDI has been researched and modelled by many economist including Dunning (2003), Chakrabarti (2001), Phelan & Beg (2003). The relationship between FDI and GDP is now established in academic literature and in recent studies this relationship has been used as a model to describe country's competitiveness in the international market to attract FDI. As market size or country's GDP is considered as the dependent variable in the economic models, several studies have considered FDI as a proportion of GDP (Jun & Singh, 1995) & (Chan & Gemayel, 2004).

## Openness to Trade

Country's openness to trade plays a significant role to determine increasing or decreasing FDI flow in to a country. Jun & Singh (2010) have demonstrated positive link between trade openness and FDI flows. When the country becomes open to trade, it attracts more FDI and also encourages outflows of FDI or exports. The literature work of Jun & Singh was backed by Nunnenkamp (2002),

Chkrabarti (2001) and they also found positive relation between openness to trade and FDI. However, Chakrabarti (2001) and Nunnenkamp (2002) have criticised openness alone isn't enough to attract FDI, market size is little or more important factor in this regard. There is one case of study found that doesn't back research work of Jun & Singh properly and it was conducted by Pearce, Islam & Sauvart (2012) on behalf of United Nation and they concluded that they didn't find any strong evidence of tariff hopping argument that FDI is positively related to trade protection.

Often country's export promoting strategies and other incentives play a vital role to attract FDI. It is ambiguous that openness to trade and FDI are closely related. However, for emerging economies like BRICS, trade facilities and openness do have a significant impact. Its necessary to mention that Jun and Singh's research (2010) included determinant factors of 31 developing nations and no advanced developed nation was included in their research. It can be summarised that their theory does work with developing nations while it probably doesn't get along with developed or advanced developed countries.

## External Uncertainty

According to Anderson & Gatignon (2005), external uncertainty of an entrant can be defined as unpredictability of environmental risks. In general term, it is also known as 'country risk'. In some cases, political risk is singled out however, it is a part of external uncertainty. (Anderson & Gatignon, 2005). Agarwal & Ramaswami (2002) defines external uncertainty as –

“The uncertainty over the continuation of present economic and political conditions and government policies which are critical for the survival and profitability of a firm's operations in that country”

Root (2004) distinguishes four types of political risk and he considers political risk is a part of external risk. He political risk as -

- General instability
- Expropriation risk
- Operation risk
- Transfer risk

As Root (2004) states political risk arises as a part of external uncertainty, he claims -

“Uncertainty over the continuation of present political conditions and government policies in the foreign host country that are critical to the profitability of an actual or proposed equity/contractual business arrangement.”

External risk works as a bond effect in terms of FDI, as risky bonds require to have higher yields, if the external risk is high in a given country, investors will look for higher return on their investment. It is no doubt that if the external risk is too high, it will jeopardise the viability of countries FDI market.

As large number of country rating is widely available, external risk is one of the most important matter of due diligence in international trades. There are several kinds of risk rating agencies available depending on specialisation -

- Credit risk - Standard & Poor, Euro money, Russell Group
- Corruption - Transparency International, Amnesty, Human Rights Watch
- Overall Risk - Global Insight, ICRG

Although credit measures and other types of risk evaluating agencies regularly monitors and publishes reports, some academics criticise that those report and rating procedures are too numerical and hardly reflects real investment values. Calhoun (2005) found that various risk measures are generic and they are not a

set of congruent risk measures that get along with different types of geo-political and socio-economical aspects. According to Cosset & Roy (2001), government risk indicators are much more viable set of elements to study to determine country's worth of investment.

According to World Bank are sets of indicator that indicates various environmental risks -

- Political stability
- Rule of law
- Voice and accountability
- Regulatory quality
- Control of corruption
- Overall government effectiveness.

Voice of accountability and regulatory quality are two of the long term indicator which are related country's education and skill management system. However, rule of law, political stability and government effectiveness and control of corruption are the indicators that widely determine country's risk of investment in developing nations. A politically stable and effective government tend to reduce corruption and increase rule of law that facilitates foreign investors to invest.

## CHAPTER-3: RESEARCH METHODOLOGY

Research methodology is a significant part of the research project as it covers the use of various techniques and methods so as to perform the research or collect the data and analyse them in proper manner so that we can use that information and effective results can be obtained (Analoui, F., 2014). It also helps to understand the research process in a precise manner so that researcher can collect adequate and related information in context to the research project (Al-Nuemat, A., 2009).

The theoretical perspective of the research is more over positivism as the purpose of this research is to enumerate various sources to know about the effect of Foreign Direct Investment in BRICS economies.

### Data Collection Method & Analysis

In respect to the research project its aimed to use secondary data to develop the content as the primary objective is to figure out whether FDI facilitates development & growth of BRICS (Churchill, G. & Brown, T., 2009). The data or information which is secondary in nature in the context of this research paper are aimed to collect from various sources such as libraries, magazines, books, internet, journals etc.

Secondary data has been collected from different websites and journals. In order to collect data regarding GDP growth, FDI inflows, HDI and other related figures, World Bank's data base has been considered as the major source. However, in order to collect data regarding investor countries' and investment sectors in different BRICS nations, several international banks, especially Santander Bank and ministerial departments publication have been followed.



After collecting data, regression analysis will be conducted to determine the relationship between different dependent and independent variables. For example, its aimed to consider GDP as the dependent variable and FDI inflows as the independent variable and evaluate whether FDI inflows impact anything in countries GDP growth. In order to do so, FDI inflows in different BRICS nations have to be converted in to FDI growth rate. The list of logarithmic growth rate of FDI inflows in each nations is listed in the appendix.

### Reliability and Validity

The data is reliable as it is taken from the genuine sources and they are properly referenced so they cannot be easily manipulated. For the reliability and validity factors we can approach the data privacy techniques and allow data from authentic and accountable authorities like WTO, World Bank, Goldman Sachs, IMF etc. For the purpose of the sourcing the data we can use the government websites where legitimacy and adequacy prevails the most (Malhotra, N. & Birks, D., 2013). For making the data reliable it is being necessary to have proper referencing for the reduction of modification of words while we know that the data which is unreferenced can easily be modified. It necessary to make the data reliable with the help of referencing but in this research paper the data which is collected is already valid as it is collected from the secondary data. In the context of this research paper the data which is stored in the system must be protected with the security password to make it safe in an effective manner so that no one is liable to use it without the permission or approval. The data which is being properly stored as well as protected provides validity for the long the term and also helps in conducting the research in the future. (Kreitner, R & Kinicki, A., 2013)

## Limitations

Any circumstances that becomes barrier in the context of completing the research paper is called as limitations (Dolnicar, S., 2013). Limitations are those influences that are not under the control of the researcher and become restrictions in drawing the conclusions of the research (Sauders, M. & Lewis, P., 2012).

It becomes difficult to gather reliable secondary data from various sources. Data have been collected from hand picked sources that believed to be most reliable and legit. Choosing the appropriate data from the secondary source would help in gaining correct information in the context of the research paper (Borkowski, S., Welsh, M., & Zhang, Q., 2014). Proper time management and prioritising play a vital role to maintain quality and determination to get success in the research (Sauders, M. & Lewis, P., 2012).

## CHAPTER - 4: DATA ANALYSIS

### GDP as an Indicator of Market Size

GDP is a monetary measure to value all terminal goods and services produced in a period. Most usually, GDP is calculated every year to determine economic growth. GDP is the single most important parameter to evaluate the market size of a country or region. GDP is represented in two types of value - GDP Nominal Value & GDP PPP. In this research report GDP Nominal values are used which is the standardized international GDP value.

The reason behind GDP being arguably the most important economic statistic is it captures the state of the economy in one number.

GDP can be measured in three ways -

- Output measures
- Expenditure measures
- Income measures

Output measure considers the calculative value of all goods and services produced by a country. Expenditure measure calculate all goods and services purchased by individuals and government. Expenditure measure also considers trade surplus. In income measure, the value of the income is generated in terms of profits and wages.

Theoretically, all three approaches should produce the same number. (BBC Business, 2016)

## Importance of Human Development Index

Human Development Index is a composite statistic indicator of education, life expectancy at birth and income per capita. HDI is not an economic indicator, however, it explains the quality of life citizens enjoy in a certain country. HDI was first developed by two renowned South Asian economists Amartya Sen and Mahbubul Haq in the annual development report of the United Nations Development Program or UNDP (UNDP, 2016).

Currently, Norway stands at the top of HDI rank achieving HDI of 0.944. Although BRICS member nations do not qualify to rank within the upper list, the index rating has been increasing in recent years and they are topping up other countries every year. It is not unclear that FDI facilitates growth and growth brings prosperity and privileges among citizens. (CNN Travel, 2015)

HDI is calculated as below -

LE = Life Expectancy

MYS = Mean Year of Schooling

EYS = Expected Year of Schooling

$$\text{Life Expectancy Index (LEI)} = \frac{LE - 20}{85 - 20}$$

$$\text{Education Index (EI)} = \frac{MYSI + EYSI}{2}$$

$$\text{Mean Year of Schooling Index (MYSI)} = \frac{MYS}{15}$$

$$\text{Expected Year of Schooling Index (EYSI)} = \frac{EYS}{18}$$

$$\text{Income Index (II)} = \frac{\ln(GNIpc) - \ln(100)}{\ln(7500) - \ln(100)}$$

$$\text{HDI} = \sqrt[3]{LEI \times EI \times II}$$

## Brazil

YEAR	FDI INFLOW (MILLION USD)	GDP GROWTH	HDI INDEX
1985	1441.00	7.90	0.58
1986	345.00	8.00	0.58
1987	1169.00	3.60	0.59
1988	2804.00	-0.10	0.59
1989	1131.00	3.30	0.60
1990	989.00	-3.10	0.61
1991	1103.00	1.50	0.61
1992	2061.00	-0.50	0.62
1993	1292.00	4.70	0.62
1994	3072.00	5.30	0.63
1995	4859.00	4.40	0.64
1996	11200.00	2.20	0.64
1997	19650.00	3.40	0.65
1998	31913.00	0.30	0.66
1999	28576.00	0.50	0.66
2000	32779.00	4.10	0.67
2001	22457.00	1.70	0.68
2002	16590.00	3.10	0.68
2003	10143.00	1.10	0.69
2004	18165.00	5.80	0.70
2005	15459.00	3.20	0.70
2006	19378.00	4.00	0.71
2007	44579.00	6.10	0.72
2008	50716.00	-5.10	0.72
2009	31480.00	-0.10	0.73
2010	53344.00	7.50	0.74
2011	71538.00	3.90	0.74
2012	76110.00	1.90	0.75
2013	80842.00	3.00	0.75
2014	96895.00	0.10	0.76
2015	58978.00	-1.50	0.75

Figure – 4.1: Brazil - FDI Inflow, GDP Growth & HDI (World Bank, 2016)

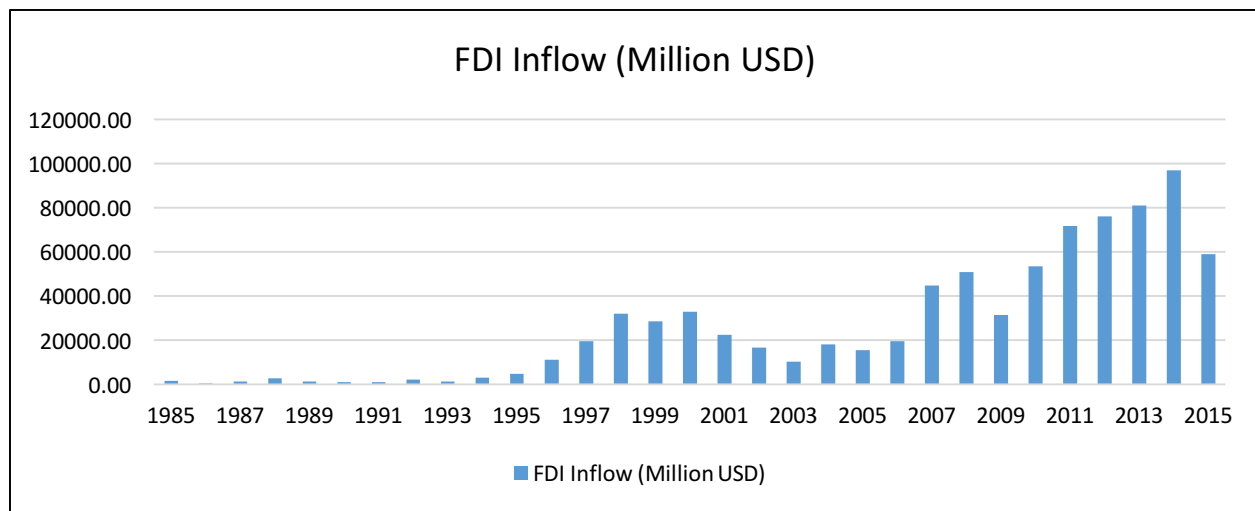


Figure -4.2: FDI Inflows in Brazil 1985-2015

From the chart above it can be seen that FDI inflow in Brazil had a great pace over the period of 2011-2014 and reached its peak in 2014 with an inflow of over 96 billion USD. However, the speed had slowed down in the year 2015 and inflow reduced by almost 23%. The trend suggest that we can expect further pick up in FDI inflows in the coming years. Despite the correction in 2015, Brazil remains the largest FDI recipient in Latin America and fifth largest in the world.

Brazil is attractive for international investors because -

- Large domestic market market of 200 million people.
- Diversified and less vulnerable economic structure.
- Geographic position with productive coastlines and substantial supply line of raw material
- Skilled workforce and higher literacy rate than many other developing nations.

Moreover, Brazil has signed bilateral trade agreements with 14 countries in terms of protection of foreign investments. International Chamber of Commerce or ICC headquartered in Rio de Janeiro oversees the implementation of agreement as an independent body.

However, investment sectors in Brazil have been facing growing uncertainty and risk because of continuing political instability, double digit inflation and growing unemployment rate. Brazil has a complicated tax system and its complex bureaucratic system makes it one of the toughest country to start a business as it stands 116<sup>th</sup> out of 189 countries on the list (Doing Business, 2016).

### Investors & Sectors

<b>Investor Country</b>	<b>Percentage</b>	<b>FDI Sector</b>	<b>Percentage</b>
Netherlands	20.0	Trade	9.0
United States	12.0	Oil and gas	8.0
Luxembourg	11.0	Telecommunications	8.0
Spain	11.0	Car industry	8.0
Germany	6.0	Electricity	7.0
Japan	5.0	Chemical industry	4.0
France	5.0	Food industry	4.0
Norway	4.0	Tobacco	4.0
Italy	3.0	Real estate	4.0
United Kingdom	3.0	Others	44.0
Others	20.0		

Figure – 4.3: Brazil - FDI Investor Countries and FDI Sectors (Santander Trade, 2016)

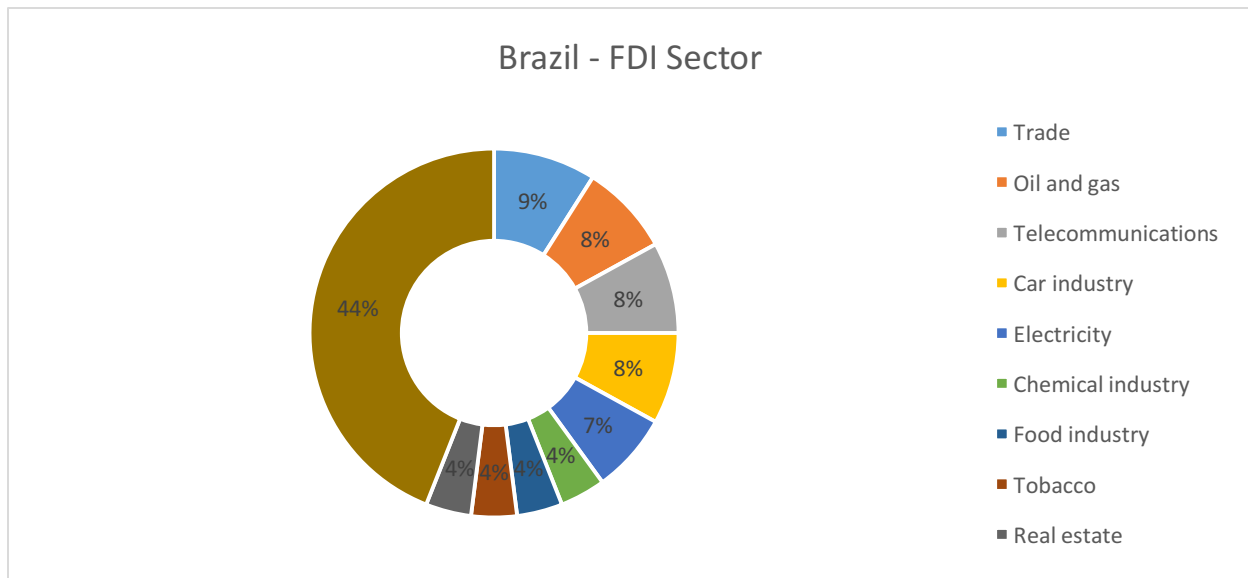


Figure – 4.4: Pie Chart Showing Investors and Sector Shares

Netherlands, USA, Spain, Luxembourg account for half of the total FDI in Brazil. Although a significant sector share goes to miscellaneous investment, trades, oil & gas, telecommunication and automobile industry attracts sizeable amount of FDI in the country. Brazil has substantial Location advantage and transaction cost advantage. The Brazilian government recently initiated the Logistic Investment Program (PIL) to facilitate investments in infrastructure in order to achieve modern development.



## Brazil – Regression Analysis Summary

### SUMMARY OUTPUT

#### Regression

##### Statistics

Multiple R	0.03
R Square	0.00
Adjusted R Square	-0.03
Standard Error	3.11
Observations	31.00

#### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.26	0.26	0.03	0.87
Residual	29.00	280.87	9.69		
Total	30.00	281.13			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	2.57	0.57	4.50	0.00	1.40
FDI Growth %	0.16	0.98	0.17	0.87	-1.85

Figure - 4.5: Brazil FDI Growth and GDP Growth Regression Analysis Result

## SUMMARY OUTPUT

### Regression

#### Statistics

Multiple R	0.01
R Square	0.00
Adjusted R Square	-0.03
Standard Error	0.06
Observations	31.00

### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.00	0.00	0.00	0.95
Residual	29.00	0.10	0.00		
Total	30.00	0.10			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	0.67	0.01	62.27	0.00	0.65
FDI Growth %	0.00	0.02	-0.06	0.95	-0.04

Figure – 4.6: Brazil FDI Growth and HDI Regression Analysis Result

The regression summary indicates -

- For GDP growth rate, adjusted R is negative. So the regression analysis is not compatible.
- FDI Growth Co-efficient for GDP growth rate is +ve 0.16
- For HDI, adjusted R is negative and the analysis is incompatible.
- Co-efficient for HDI is 0.00. So FDI inflow has no direct relation to HDI.

## Russia

YEAR	FDI INFLOW (MILLION USD)	GDP GROWTH	HDI INDEX
1992	1161.00	-14.50	0.72
1993	1211.00	-8.70	0.71
1994	690.00	-12.60	0.70
1995	2065.00	-4.10	0.70
1996	2579.00	-3.60	0.70
1997	4864.00	1.40	0.71
1998	2761.00	-5.30	0.71
1999	3309.00	6.40	0.71
2000	2714.00	10.00	0.72
2001	2748.00	5.10	0.72
2002	3461.00	4.70	0.73
2003	7958.00	7.30	0.74
2004	15444.00	7.20	0.74
2005	15508.00	6.40	0.75
2006	37594.00	8.20	0.76
2007	55873.00	8.50	0.76
2008	74782.00	5.20	0.77
2009	36583.00	-7.80	0.78
2010	43167.00	4.50	0.78
2011	55083.00	4.30	0.79
2012	50587.00	3.40	0.80
2013	69218.00	1.30	0.80
2014	22890.00	0.60	0.80
2015	955.00	-3.70	0.80

Figure – 4.7: Russia - FDI Inflow, GDP Growth & HDI (World Bank, 2016)

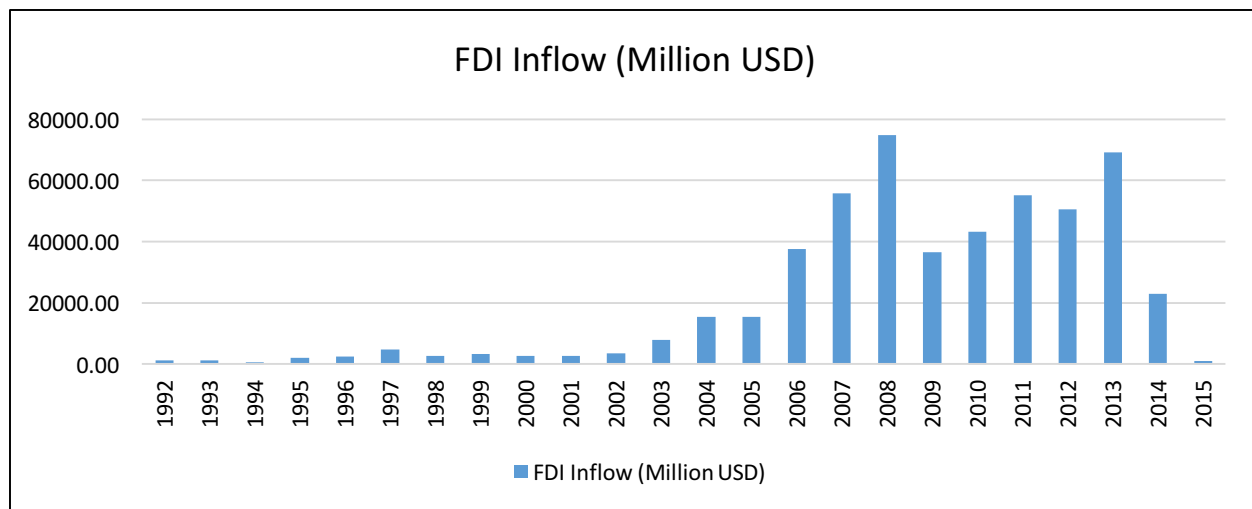


Figure – 4.8: FDI Inflows in Russia 1992-2015

Foreign Direct Investment faced a serious hard time in Russia following the collapse of Soviet Union. The country hardly attracted foreign investors up to the period of 2002-2004 because of severe external uncertainty including political instability. However, FDI in Russia started to grow and reached its peak point in 2013 at 65 billion USD but not for too long as international sanctions placed over Ukraine issue started to impact soon after. FDI inflow in Russia dropped dramatically in 2014 and its almost close to null in 2015. Although political reforms and several bilateral agreements have been taken place in Russia in recent years, FDI inflow is less likely to revive soon unless international sanctions are relaxed.

Russia is attractive for international investors because -

- Significant natural resources
- Large under utilised but skilled workforce
- Domestic market of 140 million people
- Advanced transportation links across the globe.

Russia has numerous bilateral treaties with countries like China, Canada, EU, Japan, India and South Korea. Russia has signed 34 treaties from 1992. ICSID,

ICC and SCCI are three major chamber of commerce services that operate in Russia.

In 2006, Russia had been accused of 9 ICR (International Controversies Registry) complaints by UNCTAD. Russia is 6th in global rank in term of ICR complaints. Since continuous weakening of oil price in the 2015-16 period is working as a negative force, FDI inflows in Russia is significantly inhibited. (UNCTAD, 2013)

## Investors & Sectors

<b>Investor Country</b>	<b>Percentage</b>	<b>FDI Sector</b>	<b>Percentage</b>
Cyprus	33.8	Banking	22.6
Netherlands	14.7	Automobile	22.1
Bahamas	7.2	Manufacturing	18.3
Bermuda	5.3	Mining	11.1
Germany	4.3	Electricity	4.3
BVI	3.8	Chemical industry	3.8
Switzerland	3.6	Others	17.8
UK	3.6		
Luxembourg	2.5		
Others	21.2		

Figure: Russia - FDI Investor Countries and FDI Sectors (Santander Trade, 2016)

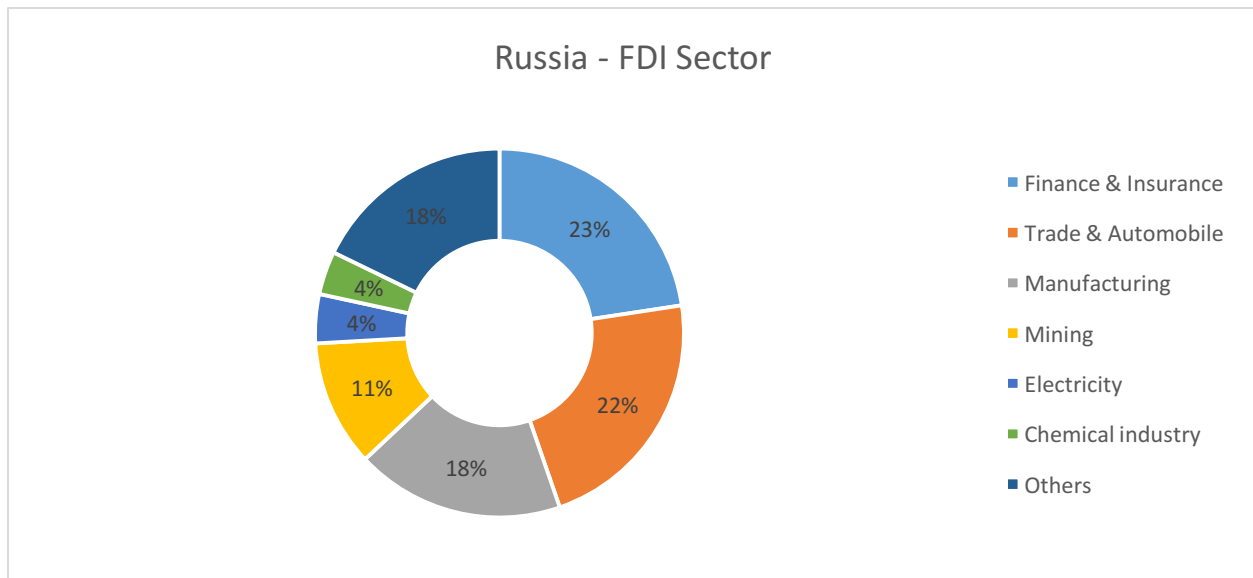


Figure: Pie Chart Showing Investors and Sector Shares

Russian government aims to implement entry mode control over the investment made by the foreigners. Most of the FDI in Russia are low to medium control FDI. And there are significant portion of vertical FDI in Russia.

In fact, determinants of FDI in Russia are working against the wind. Political corruption, international sanctions and economic instability has worsened the image of Russia's rating.

## Russia – Regression Analysis Summary

### SUMMARY OUTPUT

#### Regression Statistics

Multiple R	0.35
R Square	0.12
Adjusted R Square	0.08
Standard Error	6.65
Observations	24.00

#### ANOVA

	df	SS	MS	F	SF
Regression	1.00	135.61	135.61	3.07	0.09
Residual	22.00	973.07	44.23		
Total	23.00	1108.68			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	1.03	1.36	0.76	0.46	-1.78
FDI Growth %	2.86	1.63	1.75	0.09	-0.53

Figure – 4.9: Russia – FDI Growth and GDP Growth Regression Analysis Result

## SUMMARY OUTPUT

### Regression

#### Statistics

Multiple R	0.36
R Square	0.13
Adjusted R Square	0.09
Standard Error	0.03
Observations	24.00

### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.00	0.00	3.25	0.09
Residual	22.00	0.03	0.00		
Total	23.00	0.03			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	0.75	0.01	106.09	0.00	0.73
FDI Growth %	-0.02	0.01	-1.80	0.09	-0.03

Figure – 4.10: Russia - FDI Growth and HDI Regression Analysis Result

The regression summary indicates -

- For GDP growth rate, adjusted R is 0.08. So the regression analysis is not reliable
- FDI Growth Co-efficient for GDP growth rate is +ve 2.86
- For HDI, adjusted R is 0.09. So the regression analysis is not reliable
- Co-efficient for HDI is -ve. So FDI inflow is theoretically adversely related to HDI.



## India

YEAR	FDI INFLOW (MILLION USD)	GDP GROWTH	HDI INDEX
1985	106.00	5.30	0.41
1986	117.00	4.80	0.41
1987	212.00	4.00	0.42
1988	91.00	9.60	0.42
1989	252.00	5.90	0.42
1990	236.00	5.50	0.43
1991	73.00	1.10	0.45
1992	276.00	5.50	0.45
1993	550.00	4.80	0.46
1994	973.00	6.70	0.46
1995	2143.00	7.60	0.47
1996	2426.00	7.50	0.47
1997	3577.00	4.00	0.47
1998	2634.00	6.20	0.48
1999	2168.00	8.80	0.48
2000	3584.00	3.80	0.50
2001	5471.00	4.80	0.51
2002	5626.00	3.80	0.52
2003	4322.00	7.90	0.52
2004	5771.00	7.90	0.53
2005	7269.00	9.30	0.54
2006	20029.00	9.30	0.55
2007	25227.00	9.80	0.56
2008	43406.00	3.90	0.57
2009	35581.00	8.50	0.59
2010	27396.00	10.30	0.59
2011	36498.00	6.60	0.60
2012	23995.00	5.10	0.60
2013	28153.00	6.90	0.60
2014	33871.00	7.30	0.61
2015	31349.00	7.50	0.63

Figure – 4.11: India - FDI Inflow, GDP Growth & HDI (World Bank, 2016)

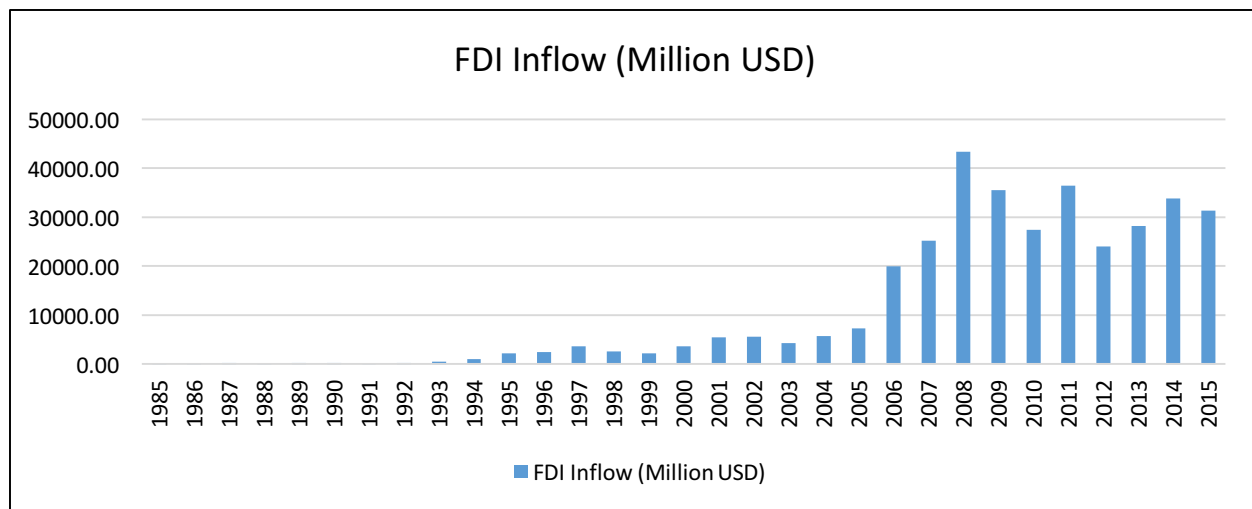


Figure – 4.12: FDI Inflows in India 1985-2015

India has been topping up many countries last decade in terms of FDI inflow and in 2015, India stood at the top of the list for FDI destination. India has a significant young workforce and the service sector in India has attracted tremendous amount of FDI in recent years. FDI inflows in India started to rise in the middle of last decade and it peaked in 2008 with 40 billion USD. It looks like the financial recession slowed down western economic growth and FDI inflow however, it emerging market like India did absorb the crisis pretty well.

India is attractive for international investors because -

- Relatively stable political system and independent judiciary.
- Vast geography with enormous amount of natural endowments.
- 1.25 billion peoples' extra large domestic market
- Demographic dividends of 800 million under 35 workforce.

Although India stands 139th out of 186 countries on the list of ease of doing business, present Indian government has taken several initiatives including increasing foreign ownership cap from 24% to 49% in several sectors, tax

incentives and Make in India project of manufacturing incentives. (Ministry of Commerce & Industry, 2016)

India has bilateral treaties with UK, USA, Germany, France, Canada, Malaysia and Mauritius. ICCWBO, ICSID and USCIB (United States Council for International Business) offers assistance to foreign investment firms in case of disagreement.

### Investors & Sectors

<b>Investor Country</b>	<b>Percentage</b>	<b>FDI Sector</b>	<b>Percentage</b>
Mauritius	29.0	Services	18.4
Singapore	21.0	Telecommunication	16.0
Netherlands	11.0	Trade	15.6
Japan	6.7	Automobile	14.5
USA	5.9	IT Sectors	12.6
UK	4.6	Pharmaceuticals	8.5
Germany	3.6	Infrastructure	4.2
France	2.0	Chemicals	3.7
Cyprus	1.9	Energy	3.7
Others	14.3	Textiles	2.7
		Others	1.0

Figure – 4.13: India - FDI Investor Countries and FDI Sectors (Santander Trade, 2016)

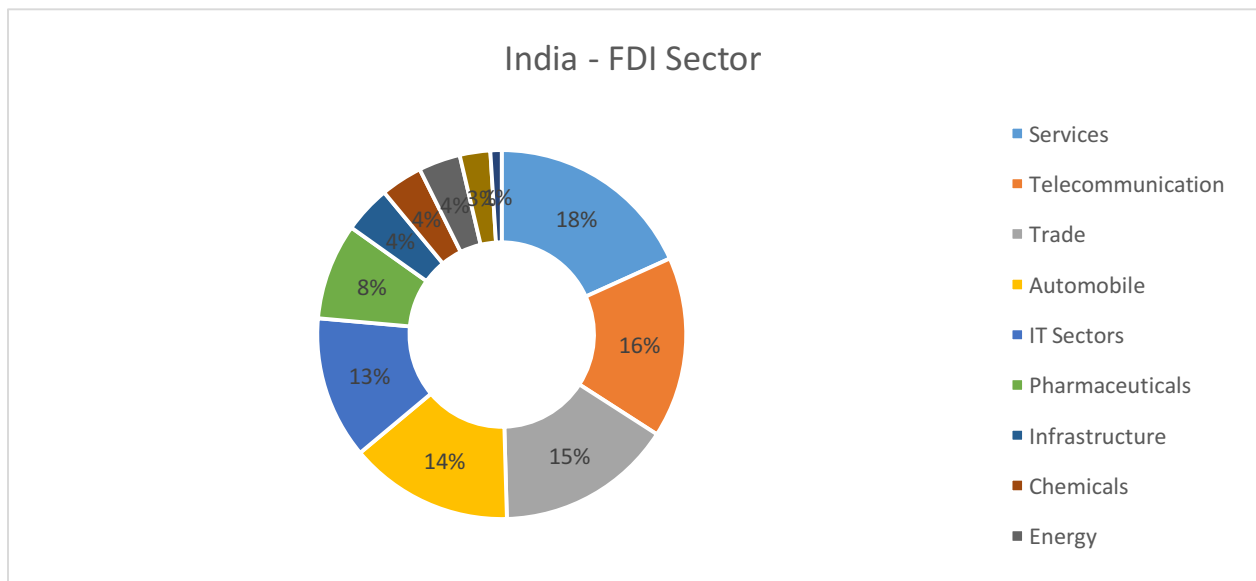


Figure – 4.14: Pie Chart Showing Investors and Sector Shares

India has tremendous internalisation advantage as English is widely spoken and huge number of employable young workforce is available. Government's Make in India project is assumed to escalate ownership advantage with certain government incentives. India has an outstanding diversified market. For that reason, India gets hit the least in the period of economic recession.

## India – Regression Analysis Summary

### SUMMARY OUTPUT

#### Regression Statistics

Multiple R	0.02
R Square	0.00
Adjusted R Square	-0.03
Standard Error	2.24
Observations	31.00

#### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.09	0.09	0.02	0.90
Residual	29.00	145.25	5.01		
Total	30.00	145.34			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	6.47	0.43	15.18	0.00	5.60
FDI Growth %	-0.10	0.77	-0.13	0.90	-1.68

Figure – 4.15: India - FDI Growth and GDP Growth Regression Analysis Result

## SUMMARY OUTPUT

### Regression

#### Statistics

Multiple R	0.08
R Square	0.01
Adjusted R Square	-0.03
Standard Error	0.07
Observations	31.00

### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.00	0.00	0.20	0.66
Residual	29.00	0.14	0.00		
Total	30.00	0.14			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	0.51	0.01	38.44	0.00	0.48
FDI Growth %	-0.01	0.02	-0.45	0.66	-0.06

Figure – 4.16: India - FDI Growth and HDI Regression Analysis Result

The regression summary indicates -

- For GDP growth rate, adjusted R is -ve. So the regression analysis is not compatible.
- FDI Growth Co-efficient for GDP growth rate is -ve.
- For HDI, adjusted R is -0.03. So the regression analysis is not reliable
- Co-efficient for HDI is -ve. So FDI inflow is theoretically adversely related to HDI.

## China

YEAR	FDI INFLOW (MILLION USD)	GDP GROWTH	HDI INDEX
1985	1659.00	13.60	0.49
1986	1875.00	8.90	0.49
1987	2314.00	11.70	0.50
1988	3194.00	11.30	0.50
1989	3393.00	4.20	0.50
1990	3487.00	3.90	0.50
1991	4336.00	9.30	0.53
1992	11156.00	14.30	0.54
1993	27515.00	13.60	0.54
1994	33787.00	13.10	0.55
1995	35849.00	11.00	0.55
1996	40180.00	9.90	0.56
1997	44237.00	9.20	0.56
1998	43751.00	7.90	0.57
1999	38753.00	7.60	0.58
2000	38399.00	8.40	0.59
2001	44241.00	8.30	0.60
2002	49307.00	9.10	0.61
2003	49456.00	10.00	0.62
2004	62108.00	10.10	0.62
2005	104108.00	11.40	0.63
2006	133272.00	12.70	0.64
2007	156249.00	14.20	0.65
2008	171534.00	9.60	0.66
2009	131057.00	9.20	0.67
2010	243703.00	10.60	0.70
2011	280072.00	9.50	0.71
2012	241213.00	7.80	0.72
2013	290928.00	7.70	0.72
2014	289097.00	7.30	0.73
2015	303551.85	7.00	0.73

Figure – 4.17: China - FDI Inflow, GDP Growth & HDI (World Bank, 2016)

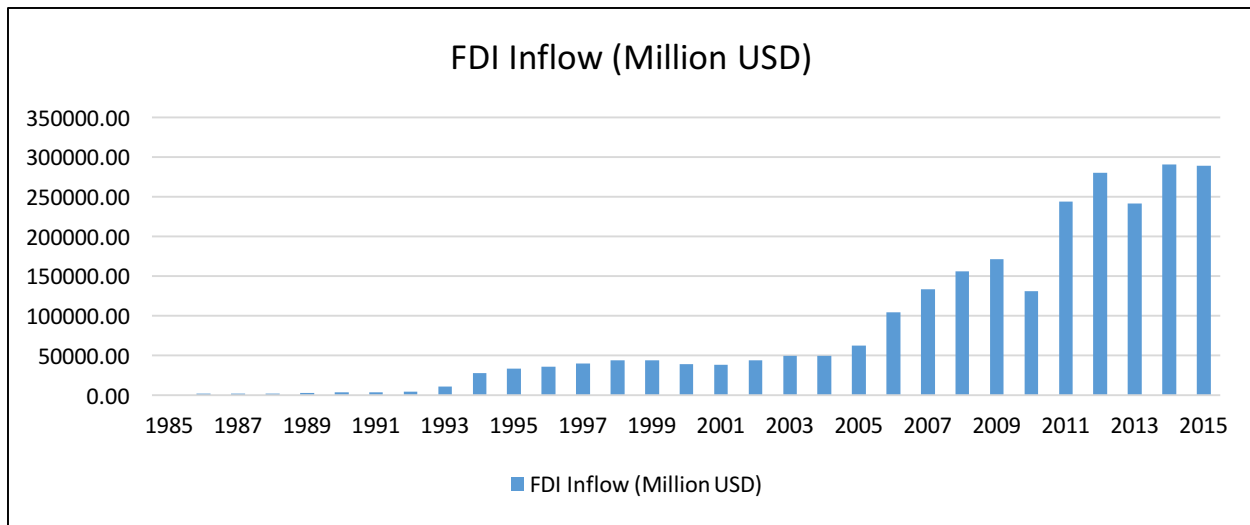


Figure – 4.18: FDI Inflows in China 1985-2015

According to the World Investment Report published by UNCTAD (2015), China is the world's biggest FDI recipient and surpassed the USA in terms of FDI inflows. China showed a gradual increase of FDI inflows from the mid 90s and it started to get pace in the mid 10s. However, the global recession did break the pace, impacting around a 15% drop in 2009. However, FDI inflow rose astronomically from 2010 and reached 300 billion USD benchmark. From the latest report in 2015, FDI inflow in China has risen further 15% putting the country on the top of the list.

China is attractive for international investors because -

- China has the biggest domestic market of 1.3 billion potential customers.
- Steady and rapid growth of at least 7% a year.
- Currency manipulation keeps production cost low. (R)
- China offers lucrative incentives in western provinces providing 5 special economic zones and 14 coastal cities.

China has numerous bilateral trade agreements. CIETAC & ICSID offers assistance services to the foreign investors. China is a signatory member of MIGA convention.



Although China is a lucrative FDI spot, China has been suffering from complicated bureaucratic system and political corruption which often drives out international investors.

### Investors & Sectors

<b>Investor Country</b>	<b>Percentage</b>	<b>FDI Sector</b>	<b>Percentage</b>
Hong Kong	73.4	Manufacturing	43.2
Singapore	5.5	Real Estates	20.9
Taiwan	3.5	Business Service	6.2
South Korea	3.2	Wholesales & Trade	5.7
Japan	2.5	Transport & Storage	2.0
USA	2.0	Others	22.0
Germany	1.2		
France	0.9		
Others	7.9		

Figure – 4.19: China - FDI Investor Countries and FDI Sectors (Santander Trade, 2016)

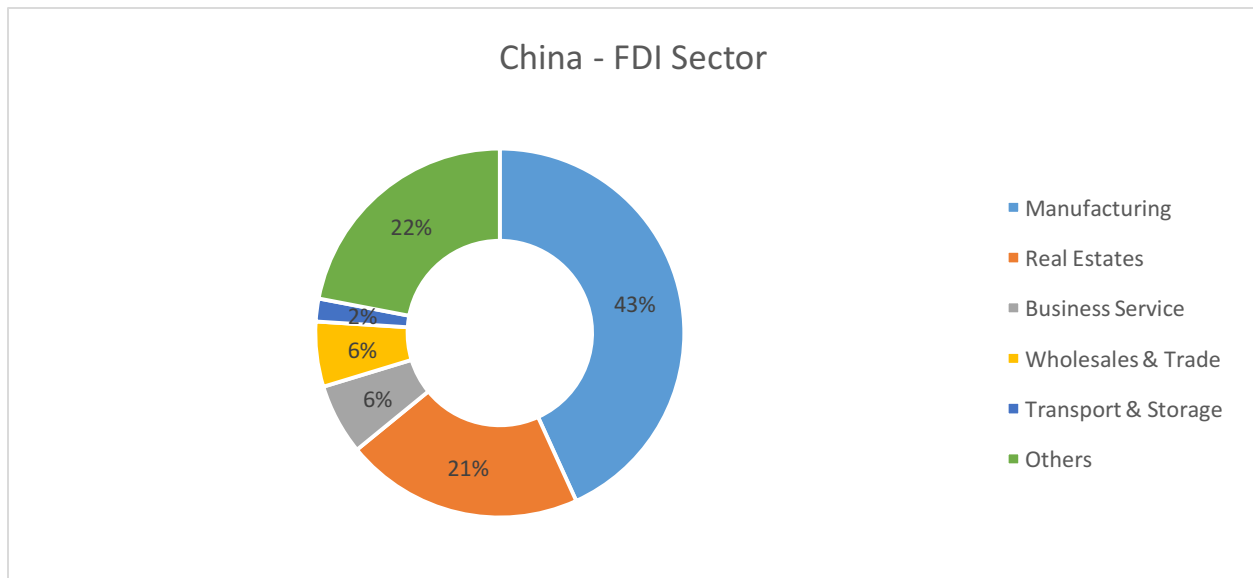


Figure – 4.20: Pie Chart Showing Investors and Sector Shares

China has the biggest pot of FDI in manufacturing sector as China has built up their policy according to product life cycle. At the present time, China is the biggest manufacturers of almost all sorts of goods.

China has been accused of currency manipulation several times and China allegedly devalue their currency so that the product looks cheap once its made in China on top of having cheap labour.

## China – Regression Analysis Summary

### SUMMARY OUTPUT

#### Regression Statistics

Multiple R	0.56
R Square	0.31
Adjusted R Square	0.29
Standard Error	2.19
Observations	31.00

#### ANOVA

	df	SS	MS	F	SF
Regression	1.00	62.50	62.50	12.98	0.00
Residual	29.00	139.59	4.81		
Total	30.00	202.10			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	8.84	0.47	18.86	0.00	7.88
FDI Growth %	5.44	1.51	3.60	0.00	2.35

Figure – 4.21: China - FDI Growth and GDP Growth Regression Analysis Result

## SUMMARY OUTPUT

### Regression

Multiple R	0.16
R Square	0.03
Adjusted R Square	-0.01
Standard Error	0.08
Observations	31.00

### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.00	0.00	0.75	0.39
Residual	29.00	0.18	0.01		
Total	30.00	0.19			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	0.61	0.02	35.90	0.00	0.57
FDI Growth %	-0.05	0.05	-0.86	0.39	-0.16

Figure – 4.22: China - FDI Growth and HDI Regression Analysis Result

The regression summary indicates -

- For GDP growth rate, adjusted R is 0.29. So the regression analysis is not reliable.
- FDI Growth Co-efficient for GDP growth rate 5.44 which is practically not possible.
- For HDI, adjusted R is -0.01. So the regression analysis is not reliable
- Co-efficient for HDI is -ve. So FDI inflow is theoretically adversely related to HDI.

## South Africa

YEAR	FDI INFLOW (MILLION USD)	GDP GROWTH	HDI INDEX
1995	1248.00	3.10	0.63
1996	816.00	4.30	0.63
1997	3810.00	2.60	0.63
1998	550.00	0.50	0.63
1999	1503.00	2.40	0.63
2000	968.00	4.20	0.63
2001	7270.00	2.70	0.63
2002	1479.00	3.70	0.63
2003	783.00	2.90	0.64
2004	701.00	4.60	0.64
2005	6522.00	5.30	0.64
2006	623.00	5.60	0.64
2007	6586.00	5.40	0.64
2008	9885.00	3.20	0.64
2009	7624.00	-1.50	0.64
2010	3693.00	3.00	0.64
2011	4139.00	3.20	0.65
2012	4626.00	2.20	0.66
2013	8232.00	2.20	0.66
2014	5740.00	2.20	0.67
2015	4900.00	1.51	0.67

Figure – 4.23: South Africa - FDI Inflow, GDP Growth & HDI (World Bank, 2016)

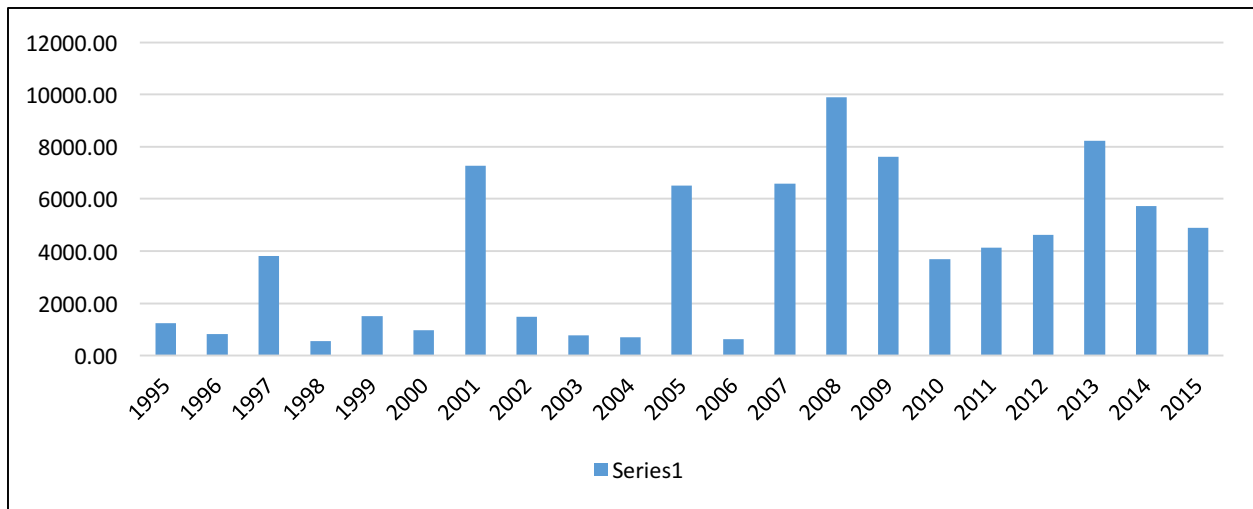


Figure – 4.24: FDI Inflows in South Africa 1995-2015

South Africa remains restricted by number of external uncertainties that discourages foreign investors and the impact can be easily visualised from the FDI inflows in late 80s to early 90s. However, the country started to take shape and became the 3rd largest FDI recipient in Africa after Nigeria and Mozambique. The country seen its FDI peak in 2007 as it acquired 10 billion USD of FDI, the global crisis soon strangled the growth in the cradle and FDI inflow dropped drastically and reduced by more than 50% by 2013.

South Africa is attractive for the international investors because -

- Free market potential, developed infrastructure, gateway to Africa.
- Possible acquisition of holding and guaranteed freedom of establishment.
- No government approval is necessary to establish a new business.

South Africa is a signatory to 35 trade conventions. ICCWBO oversees disagreement resolutions in South Africa. South Africa is also a member of MIGA.

Several negative forces inhibit FDI in South Africa as high unemployment rate, crime rate and political corruptions are some of the chronic pain South African business entities have to go through.

### Investors & Sectors

<b>Investor Country</b>	<b>Percentage</b>	<b>FDI Sector</b>	<b>Percentage</b>
United Kingdom	45.6	Finance & Banking	36.0
Netherlands	18.6	Mining	30.9
United States	7.2	Manufacturing	17.9
Germany	5.0	Transport & Storage	9.4
China	3.1	Trade	5.3
Japan	2.6	Others	0.50
Switzerland	1.6		
Luxembourg	1.4		
Others	14.9		

Figure – 4.25: South Africa - FDI Investor Countries and FDI Sectors (Santander Trade, 2016)

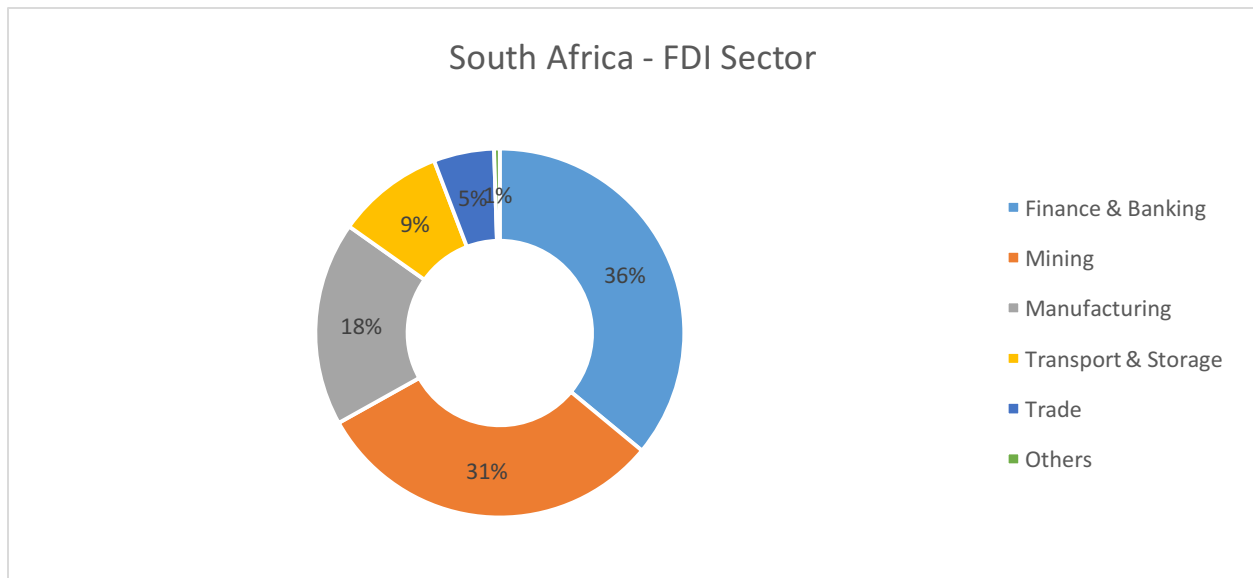


Figure – 4.26: Pie Chart Showing Investors and Sector Shares

United Kingdom is the biggest FDI injector in South Africa and for obvious reason banking and finance is the prime sectors as UK is world expert in banking. According to OLI Paradigm, South Africa Ownership, Location and Internalisation advantages to the UK as English being official language and many government regulation follows the Westminster.

Mining is significantly important sector of FDI as South Africa holds positive determinant of natural endowments in terms of coal, gas and gold.



## South Arica – Regression Analysis Summary

### SUMMARY OUTPUT

#### Regression Statistics

Multiple R	0.16
R Square	0.03
Adjusted R Square	-0.03
Standard Error	1.69
Observations	21.00

#### ANOVA

	df	SS	MS	F	SF
Regression	1.00	1.47	1.47	0.51	0.48
Residual	19.00	54.47	2.87		
Total	20.00	55.94			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	2.99	0.37	8.07	0.00	2.21
FDI Growth %	0.21	0.30	0.72	0.48	-0.41

Figure – 4.27: South Africa - FDI Growth and GDP Growth Regression Analysis  
Result

## SUMMARY OUTPUT

### Regression

Multiple R	0.01
R Square	0.00
Adjusted R Square	-0.05
Standard Error	0.01
Observations	21.00

### ANOVA

	df	SS	MS	F	SF
Regression	1.00	0.00	0.00	0.00	0.97
Residual	19.00	0.00	0.00		
Total	20.00	0.00			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	0.64	0.00	219.23	0.00	0.63
FDI Growth %	0.00	0.00	-0.04	0.97	-0.01

Figure – 4.28: South Africa - FDI Growth and HDI Regression Analysis Result

The regression summary indicates -

- For GDP growth rate, adjusted R is -0.03. So the regression analysis is not compatible.
- FDI Growth Co-efficient for GDP growth rate 0.21. So, theoretically, 1% growth in FDI will increase GDP growth by 0.21%.
- For HDI, adjusted R is -0.05. So the regression analysis is not reliable
- Co-efficient for HDI is 0.00. So there is no direct relation between FDI and HDI.

## FDI Inflows in G7 Nations

YEAR	CANADA	USA	UK	GERMANY	JAPAN	ITALY	FRANCE
1985	1356	200010	5476	821	637	1071	2595
1986	2848	35419	8564	2241	226	-171	3255
1987	8114	58471	15921	2118	1161	4174	5139
1988	6017	57736	22567	1064	-481	6801	8489
1989	6026	68250	31650	7013	-1038	2165	10303
1990	7580	48490	33503	3003	1777	6410	13183
1991	2874	23180	16451	4748	1285	2400	15152
1992	4776	19810	16550	-2117	2759	3104	21839
1993	4748	51380	16578	410	118	3748	20754
1994	8223	46130	10725	7290	911	2199	15797
1995	9319	57800	21731	11985	39	4841	23736
1996	9635	86820	27390	6429	207	3545	21971
1997	11522	105590	37505	12796	3200	3699	23047
1998	22742	179030	74651	23635	3268	2634	29518
1999	24788	289443	89337	55906	12308	6942	45986
2000	66144	321274	12256	210085	8227	13171	42379
2001	27710	167020	53842	26171	6190	14873	50342
2002	22053	84370	25531	53605	9087	14699	49568
2003	7206	63750	27621	30933	6238	16537	43061
2004	-741	145966	57333	-9802	7806	16791	32838
2005	25900	138327	252653	59855	5459	19636	85179
2006	60293	294288	203636	87440	-2396	39007	78945
2007	119940	340065	209514	50844	21631	40042	83780
2008	62162	332734	253454	30926	24634	-9500	67991
2009	23804	153788	14574	56668	12226	16574	18380
2010	28596	259344	66734	86053	7446	9937	38899
2011	40131	257410	27011	97481	-850	34443	44191
2012	39296	232001	46750	54659	546	34	41496
2013	70753	287162	35015	59014	7412	19530	33551
2014	57168	131829	45456	8389	9069	13726	7956
2015	48021.12	166791	49092.48	5290	11736	16586	12468

Figure – 4.29: FDI Inflows in G7 Nations (Million USD): 1985 - 2015 (World Bank, 2016)

## Comparison of FDI Inflows in BRICS & G7 Nations

YEAR	BRICS NATIONS (MILLIONS USD)	G7 NATIONS (MILLIONS USD)
1985	\$ 2,754.00	\$ 211,966.00
1986	\$ 2,287.00	\$ 52,382.00
1987	\$ 3,504.00	\$ 95,098.00
1988	\$ 6,247.00	\$ 102,193.00
1989	\$ 4,575.00	\$ 124,369.00
1990	\$ 4,637.00	\$ 113,946.00
1991	\$ 5,766.00	\$ 66,090.00
1992	\$ 14,657.00	\$ 66,721.00
1993	\$ 30,579.00	\$ 97,736.00
1994	\$ 38,896.00	\$ 91,275.00
1995	\$ 46,164.00	\$ 129,451.00
1996	\$ 57,201.00	\$ 155,997.00
1997	\$ 76,138.00	\$ 197,359.00
1998	\$ 81,609.00	\$ 335,478.00
1999	\$ 74,309.00	\$ 524,710.00
2000	\$ 78,444.00	\$ 673,536.00
2001	\$ 82,187.00	\$ 346,148.00
2002	\$ 76,463.00	\$ 258,913.00
2003	\$ 72,662.00	\$ 195,346.00
2004	\$ 102,189.00	\$ 250,191.00
2005	\$ 148,866.00	\$ 587,009.00
2006	\$ 210,896.00	\$ 761,213.00
2007	\$ 288,514.00	\$ 865,816.00
2008	\$ 350,323.00	\$ 762,401.00
2009	\$ 242,325.00	\$ 296,014.00
2010	\$ 371,303.00	\$ 497,009.00
2011	\$ 447,330.00	\$ 499,817.00
2012	\$ 396,531.00	\$ 414,782.00
2013	\$ 477,373.00	\$ 512,437.00
2014	\$ 448,493.00	\$ 273,593.00
2015	\$ 399,733.85	\$ 309,984.60

Figure – 4.30: Comparison Chart of FDI Inflow of BRICS & G7 Nations: 1985 - 2015 (World Bank, 2016)

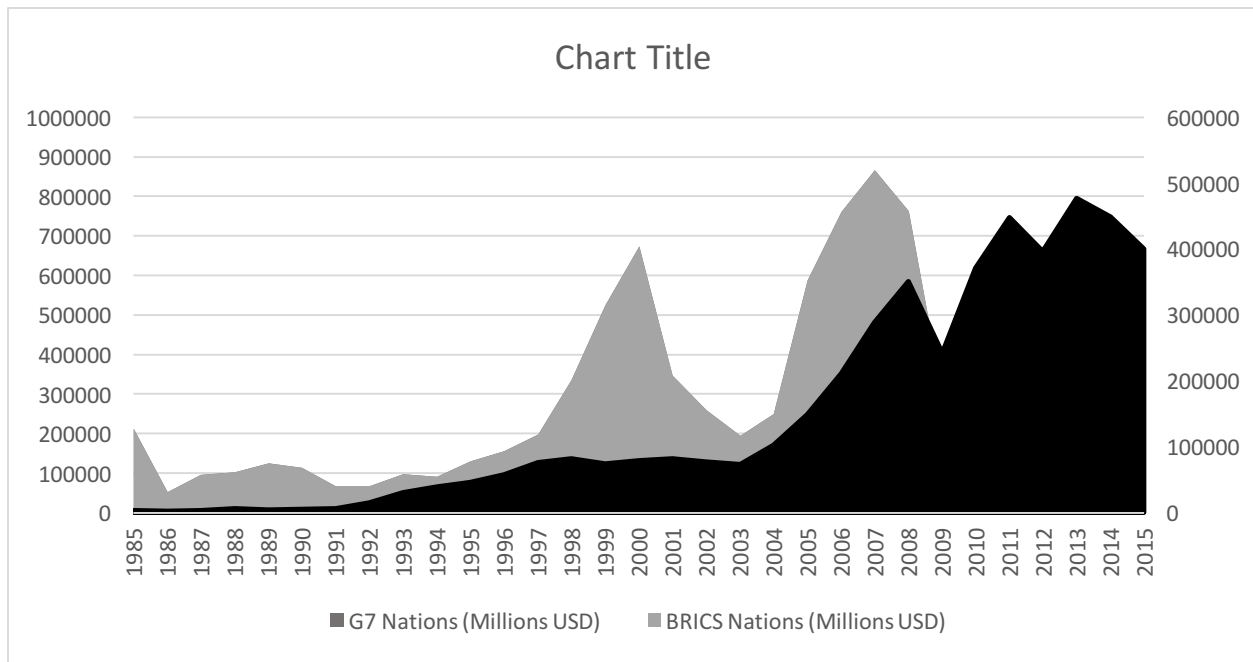


Figure – 4.31: Comparison Graph of FDI Inflow of BRICS & G7 Nations: 1985 - 2015

BRICS consist of countries which have huge population, massive market size and tremendous economic diversity. G7 nations had always been leading the charts of FDI inflows and reached peak heights consecutively in 1999 for dot com bubble and in 2007 for real estate bubble. However, both of the financial bubble busted and dragged down over all FDI inflows by time. On the other hand, because of widely diversified market, BRICS nations had been successful in absorbing the thrust of global boom and bust and eventually the global recession and presently BRICS nations have surpassed G7 nations in terms of FDI inflow. The growth of FDI in BRICS nations is assumed to be much more stable and robust than G7 nations and expected to reach new altitudes in coming decades.

## CHAPTER-5: RESEARCH OUTCOME

### Findings

After collecting all the necessary data and careful analysis, it is found that –

- FDI net inflow to a host country is not directly related to the major development factors like GDP growth rate and Human Development Index in the cases of large emerging markets like BRICS.
- There can be many reasons for FDI inflows not being directly related to development. Among them, size of the country's economy could be a major factor. For example, in 2014 Brazil's GDP value was 2.34 trillion USD and net FDI received was 96.8 billion USD which is only around 4% of total GDP. (World Bank, 2016) The amount is too little to impact on a huge economy like Brazil. The same would apply in the case of even bigger economies like China & India.
- As discussed in the literature review, human development through FDI faces tremendous amount of hurdles because of some rules and regulations imposed by the international organisation and the quality of FDI. Although BRICS nations are growing rapidly, hundreds of millions of people live under poverty line in those countries. As they have to ensure security to foreign investors, countries often provide too many privileges to the investor country and ends up not getting enough benefit of the capital.
- It was also found out that BRICS nations FDI inflow can be explained through country specific strategy. For example, Brazil has transaction cost benefit. The country is working as a global hub for international trade. The "Opportunism" factor in Brazil works as a FDI magnet and attracts FDI from across the globe such as Japan and USA. Brazil receives more than its 9% FDI inflow for trades. As international trades are prone to nations which has greater transaction privilege, it works pretty well in Brazil. Brazil's

coastal cities, wider access to major shipping routes and government infrastructure lowers the transaction cost and attracts FDI.

- Russia and South Africa both are strategically following entry control FDI in their countries. Both nations have relatively advanced infrastructure among many other developing nations and as a result investment occurs mostly in banking and finance. As of 2015, Russia and South Africa received consequently 22.6% and 36.0% of their total FDI in this particular sector. Medium to small controlled entry mode facilitates foreign investments in these sectors. Russia and South Africa also attracts significant FDI inflows in mining and automobile sectors which are business of more established infrastructure.
- India has tremendous amount of location and internalisation advantage among all other nations in BRICS. India's growing young population with higher education and English speaking skills have made them highly employable in service sectors. And in the present era of modern communication system, a young employee from India can serve customers in the USA, UK, Australia or any other country that requires that service. For this reason, India receives 18.5% of its diversified FDI inflows in service sector alone. India offers one of the lowest labour cost anywhere in the world which works as a significant location advantage for India. At the present time, Indian government is taking initiatives to ease off bureaucratic system for business and trades which is currently one of the biggest impediments for foreign investments and ease of doing business can trigger ownership advantages in India.
- On the other hand, China has mastered the strategy of product life cycle. China attracts staggering 43% of its total FDI in manufacturing industry. Most of the products manufactured in China are imitation products, not innovation products. Products are innovated, introduced in the furthest part of the word and once it reaches its growth maturity level, firms decide to manufacture the product in bulk in China as it offers not only cheap

labour but skilled labour and solid manufacturing infrastructure too. China stood number one in the world in terms of FDI inflow beating the USA in 2015. China's strong export oriented business initiatives involve numerous trade agreements, tax incentives, EPZ and other special economic zones. Above all, China has built a solid image of low cost manufacturing hub in the world which has enabled FDI to pour into the country in a constant basis in the recent years.

- As BRICS involve some of the largest and diversified nations in the world, determinants of FDI is also diverse and distinguished from country to country. Although many of the factors working in favour of FDI, some factors are working as a negative force. Corruption is a common deterrent in all BRICS nations starting with South Africa as the most corrupt nation. Political instability is a flip side of Russia & Brazil's present condition. Government effectiveness is a negative determinant in China & India. China's communist political system doesn't allow big businesses to run in a full flow unless its related to the inner circles of the governing party. However, the biggest determinant that are working in favour of these nations are huge market size and trade openness due to globalisation.
- BRICS nations apart from Russia, tackled recent global financial recession of 2008 significantly well compared to G7 and OECD nations. Because of huge diversification, these countries have a tremendous capability to absorb the quack of global recession. In terms of FDI inflow, BRICS nations together lagged way behind of G7 nations before the global recession of 2008. As G7 nations' FDI inflow has been getting a correction, FDI inflow in BRICS nations has been getting a sizeable growth and in recent years the number has surpassed the G7 FDI inflow and predicting some huge inflows in coming years.
- Market size is a big factor in attracting FDI and for this reason, BRICS nations are getting the upper hand in attracting foreign investments. As these countries are developing at a high speed, the size of the market will



get bigger and bigger and they are likely to receive more FDI in the coming years provided that the authorities in those countries make sure that the deterrent factors of FDI inflows are repelled and resolved.

## Recommendation

Although it wasn't possible to draw a fine line between FDI inflow and GDP growth and/or HDI, it might be possible to define the relationship in smaller countries. Countries like Seychelles, Fiji, Mauritius are highly dependent on foreign investments and trades. These small nations do not have sufficient natural resources or diversification of wealth. A comparative study on small growing nations could be undertaken to evaluate the whether FDI facilitates growth.

Moreover, FDI might act as an active job creator and development catalyst in the particular region of big nations like BRICS. As for example, Guangzhou & Shenzhen in China and Gujrat in India demonstrated rapid development in state level in the last decade as huge FDI in flowed in to the country through these regions and many many commercial infrastructures had been built that created jobs and other facilities for the people of those regions. A region specific study can figure out the impact of FDI in the states that receive the capital. (ET Telecom, 2015)

Some of the BRICS nations, for example – China, Russia & Brazil are facing the saturation level of their strategic position in term of attracting global FDI. Although China has been attracting huge amount of FDI in the manufacturing sector because of cheap labour and other benefits, labour cost in China is starting to rise and there are other competitors on the market who are offering cheap production, it is not too far that China has to reconsider its strategic position in order to attract foreign investments. Recent US-EU sanction on Russia has jeopardised FDI inflows in the country and it has come down to mere 955 million

USD in 2015. A study can find out the strategic reform these nations should consider in order to keep attracting FDI in the BRICS region.

## Conclusion

As it was found out in the research, development factors like GDP growth and HDI aren't directly related to FDI inflow in BRICS nations. The primary reason is assumed to be the hugeness of the economy and social and economic diversity. BRICS nations are too big and diversified to be impacted substantially only by FDI inflows. Development and growth of big economies like BRICS nations depend mostly on exports, employments, trades, infrastructure etc. However, FDI inflow do have a very positive impact on state level that receives the capital. A comparative study in state or in area level can confirm whether foreign investment speeds up the growth. It is also being recommended that small island nations may demonstrate some positive relationship between growth and FDI inflow as they are significantly dependent on foreign investments.

It was found that BRICS nations can be classified according to FDI attracting strategies. Each nation has its own distinguished advantages and focus on their strength to attract foreign investment.

Determinants of FDI in BRICS nations have been classified in three broad sections – Market size, Openness to trade and External uncertainty. Most BRICS nations do pretty well when it comes to market size as due to huge domestic market they attract FDI a lot. These countries have started to be more open to international trades since last few decades due to globalisation and it has impacted FDI inflows dramatically. However, the only flip side of BRICS nations is external uncertainty in terms of FDI determinants. These countries face terrible corruption, government ineffectiveness and social unrest.

Comparing to G7 nations, it was seen that although G7 FDI inflows had reached record peak in last decades, BRICS FDI is growing at a more stable and steady pace than G7 and tackled recent global recession in 2008 much better than developed nations. If governments of these countries become successful to balance internal corruption and other negative deterrents, BRICS FDI may reach to a record high in coming years.

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## APPENDIX

### Logarithmic Growth Rate of FDI Inflows

Year	FDI Inflow (Million USD)	ln(FDI)	FDI Growth %
1985	1441.00	7.27	0.00
1986	345.00	5.84	-1.43
1987	1169.00	7.06	1.22
1988	2804.00	7.94	0.87
1989	1131.00	7.03	-0.91
1990	989.00	6.90	-0.13
1991	1103.00	7.01	0.11
1992	2061.00	7.63	0.63
1993	1292.00	7.16	-0.47
1994	3072.00	8.03	0.87
1995	4859.00	8.49	0.46
1996	11200.00	9.32	0.84
1997	19650.00	9.89	0.56
1998	31913.00	10.37	0.48
1999	28576.00	10.26	-0.11
2000	32779.00	10.40	0.14
2001	22457.00	10.02	-0.38
2002	16590.00	9.72	-0.30
2003	10143.00	9.22	-0.49
2004	18165.00	9.81	0.58
2005	15459.00	9.65	-0.16
2006	19378.00	9.87	0.23
2007	44579.00	10.71	0.83
2008	50716.00	10.83	0.13
2009	31480.00	10.36	-0.48
2010	53344.00	10.88	0.53
2011	71538.00	11.18	0.29
2012	76110.00	11.24	0.06
2013	80842.00	11.30	0.06
2014	96895.00	11.48	0.18
2015	58978.00	10.98	-0.50

Figure: Logarithmic Growth Rate of Brazil's FDI Inflow

Year	FDI Net Inflow (Million USD)	ln(FDI)	FDI Growth %
1992	1161.00	7.06	0.00
1993	1211.00	7.10	0.04
1994	690.00	6.54	-0.56
1995	2065.00	7.63	1.10
1996	2579.00	7.86	0.22
1997	4864.00	8.49	0.63
1998	2761.00	7.92	-0.57
1999	3309.00	8.10	0.18
2000	2714.00	7.91	-0.20
2001	2748.00	7.92	0.01
2002	3461.00	8.15	0.23
2003	7958.00	8.98	0.83
2004	15444.00	9.64	0.66
2005	15508.00	9.65	0.00
2006	37594.00	10.53	0.89
2007	55873.00	10.93	0.40
2008	74782.00	11.22	0.29
2009	36583.00	10.51	-0.71
2010	43167.00	10.67	0.17
2011	55083.00	10.92	0.24
2012	50587.00	10.83	-0.09
2013	69218.00	11.15	0.31
2014	22890.00	10.04	-1.11
2015	955.00	6.86	-3.18

Figure: Logarithmic Growth Rate of Russia's FDI Inflow

Year	FDI Net Inflow (Million USD)	ln(FDI)	FDI Growth %
1985	106.00	4.66	0.00
1986	117.00	4.76	0.10
1987	212.00	5.36	0.59
1988	91.00	4.51	-0.85
1989	252.00	5.53	1.02
1990	236.00	5.46	-0.07
1991	73.00	4.29	-1.17
1992	276.00	5.62	1.33
1993	550.00	6.31	0.69
1994	973.00	6.88	0.57
1995	2143.00	7.67	0.79
1996	2426.00	7.79	0.12
1997	3577.00	8.18	0.39
1998	2634.00	7.88	-0.31
1999	2168.00	7.68	-0.19
2000	3584.00	8.18	0.50
2001	5471.00	8.61	0.42
2002	5626.00	8.64	0.03
2003	4322.00	8.37	-0.26
2004	5771.00	8.66	0.29
2005	7269.00	8.89	0.23
2006	20029.00	9.90	1.01
2007	25227.00	10.14	0.23
2008	43406.00	10.68	0.54
2009	35581.00	10.48	-0.20
2010	27396.00	10.22	-0.26
2011	36498.00	10.51	0.29
2012	23995.00	10.09	-0.42
2013	28153.00	10.25	0.16
2014	33871.00	10.43	0.18
2015	31349.00	10.35	-0.08

Figure: Logarithmic Growth Rate of India's FDI Inflow



Year	FDI Net Inflow (Million USD)	ln(FDI)	FDI Growth %
1985	1659.00	7.41	0.00
1986	1875.00	7.54	0.12
1987	2314.00	7.75	0.21
1988	3194.00	8.07	0.32
1989	3393.00	8.13	0.06
1990	3487.00	8.16	0.03
1991	4336.00	8.37	0.22
1992	11156.00	9.32	0.95
1993	27515.00	10.22	0.90
1994	33787.00	10.43	0.21
1995	35849.00	10.49	0.06
1996	40180.00	10.60	0.11
1997	44237.00	10.70	0.10
1998	43751.00	10.69	-0.01
1999	38753.00	10.56	-0.12
2000	38399.00	10.56	-0.01
2001	44241.00	10.70	0.14
2002	49307.00	10.81	0.11
2003	49456.00	10.81	0.00
2004	62108.00	11.04	0.23
2005	104108.00	11.55	0.52
2006	133272.00	11.80	0.25
2007	156249.00	11.96	0.16
2008	171534.00	12.05	0.09
2009	131057.00	11.78	-0.27
2010	243703.00	12.40	0.62
2011	280072.00	12.54	0.14
2012	241213.00	12.39	-0.15
2013	290928.00	12.58	0.19
2014	289097.00	12.57	-0.01
2015	303551.85	12.62	0.05

Figure: Logarithmic Growth Rate of China's FDI Inflow

Year	FDI Net Inflow (Million USD)	ln(FDI)	FDI Growth %
1995	1248.00	7.13	0.00
1996	816.00	6.70	-0.42
1997	3810.00	8.25	1.54
1998	550.00	6.31	-1.94
1999	1503.00	7.32	1.01
2000	968.00	6.88	-0.44
2001	7270.00	8.89	2.02
2002	1479.00	7.30	-1.59
2003	783.00	6.66	-0.64
2004	701.00	6.55	-0.11
2005	6522.00	8.78	2.23
2006	623.00	6.43	-2.35
2007	6586.00	8.79	2.36
2008	9885.00	9.20	0.41
2009	7624.00	8.94	-0.26
2010	3693.00	8.21	-0.72
2011	4139.00	8.33	0.11
2012	4626.00	8.44	0.11
2013	8232.00	9.02	0.58
2014	5740.00	2.01	1.50
2015	4900.00	1.50	1.90

Figure: Logarithmic Growth Rate of South Africa's FDI Inflow

